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Arne Rieber, Frank Bliss and Karin Gaesing

Sustainable Financial Inclusion in the Rural Area

AVE Study 26/2022

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Sustainable Financial Inclusion

in the Rural Area

AVE Study 26/2022

Ways out of poverty, vulnerability and food insecurity

University of Duisburg-Essen Institute for Development and Peace (INEF)

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List of abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AVE	Poverty, Vulnerability and Food Insecurity
BMZ	Federal Ministry for Economic Cooperation and Development
CGAP	Consultative Group to Assist the Poor (at World Bank headquarters)
CGIAR	Consultative Group on International Agricultural Research
COVID-19	Coronavirus 2019 disease
DAC	Development Assistance Committee of the OECD (cf. OECD)
EIC	Economic Intelligence Center
ESSP	Ethiopia Strategy Support Programme
DC	Development cooperation
FAO	Food and Agriculture Organization of the United Nations
FI	Financial inclusion
FC	Financial Cooperation
GDP	Gross Domestic Product (cf. GNI)
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GNI	Gross National Income (cf. GDP)
HRW	Human Rights Watch
IFAD	International Fund for Agricultural Development
IIED	International Institute for Environment and Development
IIF	InsuResilience Investment Fund
ILO	International Labour Organization
INEF	Institute for Development and Peace
KfW	Kreditanstalt für Wiederaufbau (development bank)
LE	*Livres Egyptiennes*, Egyptian pounds (1 EUR = approx. 20 LE)
LMFA	Lebanese Micro-Finance Association
LICADHO	Cambodian League for the Promotion and Defence of Human Rights
M+E	Monitoring and Evaluation
MENA	Middle East and North Africa
MF	Microfinance
MFS	Microfinance Services
MFI	Microfinance institution/s
MNO	Mobile Network Operator
NGO	Non-governmental organization(s)

ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
p.a.	per year
p.c.	per capita
p.d.	per day
PPP	Public-Private Partnership
R4	R4 Rural Resilience Initiative
SACCO(s)	Savings and Credit Cooperative(s)
SDGs	Sustainable Development Goals (= Agenda 2030)
SRoV	Socialist Republic of Vietnam
SSA	Sub-Saharan Africa
TC	Technical Cooperation
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNU-WIDER	United Nations University – World Institute for Development Economics Research
USD	US Dollar
USSD	Unstructured Supplementary Service Data
USAID	United States Agency for International Development
WASH	Water, Sanitation and Health
WFP	UN World Food Programme
WOCCU	World Council of Credit Unions

Project background

Against the background that the number of extremely poor people in many developing countries is not declining despite considerable efforts, the Institute for Development and Peace (INEF) at the University of Duisburg-Essen, with funding from the German Federal Ministry for Economic Cooperation and Development (BMZ), conducted a four-and-a-half-year research project entitled "***Ways out of extreme poverty, vulnerability and food insecurity***" (AVE) from October 2015 to March 2020. The aim of the project was to develop recommendations for German official development cooperation (ODC) with regard to improving the target group accessibility of extremely poor, vulnerable and food-insecure population groups and the sustainable improvement of their living conditions.

The focus of the INEF team's research was on examining projects that work primarily within the following topics:

(i) Access to ***land and legal security of land ownership*** and use,
(ii) ***Agricultural value chains*** and
(iii) ***Social security***.

Socio-cultural aspects of development, ***participation of*** the population in decision-making as well as ***gender justice*** were always considered as cross-cutting issues.

Since October 2020, with a planned duration until the beginning of 2023, the research project has been continued with a slightly different target group: poor, vulnerable and food-insecure people. In contrast to the first phase, where the focus was on extremely poor households or the ultra-poor, that had no or few self-help capacities and were often "overlooked" in the context of development cooperation (DC), the focus is now on groups of people who cultivate at least some land and can thus be reached in development cooperation projects through classic agricultural and rural development approaches.

As before, the focus is on the search for *good practices* for successful poverty reduction and on working out the respective conditions for success. The focus of the research is now on ***agricultural financing*** and ***holistic support approaches*** for smallholder households, ***i.e. support approaches that combine financial services with advisory services and the provision of productive goods***. A particular topic in agricultural financing is the provision of credits to smallholder households without land titles as collateral for loans. In all three research areas, the successful consideration of the cross-cutting themes of socio-cultural aspects of development, participation and gender is maintained as criteria for good DC approaches.

1. Introduction[1]

"What counts today, the question which is looming on the horizon, is the need for a redistribution of wealth. Humanity must reply to this question, or be shaken to pieces by it."
(Frantz Fanon 1961)[2].

Until the onset of the COVID-19 pandemic in early 2020, extreme poverty worldwide had been slowly but steadily declining in recent decades, at least measured in relative terms, depending on the choice of indicators and method of calculation. However, according to World Bank data, the absolute number of poor people has remained largely the same for many years, at just under 700 to 800 million. Despite numerous adapted national poverty reduction concepts, increased national measures by many countries (above all Brazil, China, and India, but also Mexico, the Philippines, Pakistan and other mainly *middle-income countries*) and the 55 to 168 billion US dollars (USD) per year in international support funds (= ODA funds)[3] used between 2000 and 2019, the situation has not changed that much (World Bank 2021).

This development is largely rooted in the continuing asymmetric power distribution in the international system, but also in a number of endogenous factors, not least – especially in many poorer countries – in poor governance. In addition, population growth in the world's poorest countries, where agricultural resources are often significantly limited, may also play a role. The increasing impacts of global climate change further exacerbate both factors.

However, there is also a number of reasons why international contributions to poverty reduction remain insufficient in many ways and therefore only have limited success. These reasons can be found, for example, in the lack of adaptation of the DC instruments, in the special situation of the poor themselves, and in the interplay of both factors[4].

Most recently and despite rapid payment of relatively generous ODA funds (although some of these were diverted from other development funds), the consequences of the COVID-19 pandemic have increased the additional number of poor people worldwide to between 119 and 150 million (Lakner et al. 2021, World Bank 2020), or even up to 400 million (Sumner et al. 2020), depending on sources. –

Moreover, while the number of undernourished people worldwide was around 690 million (8.9 % of the world's population, cf. FAO 2020: viii) before the start of the COVID-19 pandemic, the current figure is likely to have risen to 820. It is even expected that this could be an

[1] For this study, numerous discussions were held with experts on the subject, to whom we would like to express our sincere thanks for their support. Special mention should be made of Dr. Paul Armbruster and Dr. Michael Hamp, who not only supported us with the technical terminology, but also critically accompanied the article with comments. Of course, the authors of this study are solely responsible for all statements.

[2] The Wretched of the Earth, quoted from the Grove Press New York 1963 edition (original: *Les damnés de la terre*. Paris 1961).

[3] ODA (Official Development Assistance) funds are, according to the criteria of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), funds provided by government agencies of donor countries or by international organizations to improve living conditions in developing countries in the form of loans and non-repayable grants. A prerequisite for loans is that they must have a grant element of at least 25% (compared to the market interest rates for the respective recipient country) (cf. World Bank 2021).

[4] Cf. the analysis prepared within the framework of the research project "The Perpetuation of Poverty in Developing Countries. Analysis of Causes and Counterstrategies." (Bliss et al. 2017 / 2021[2]).

estimated 840 million or even more in the target year of the United Nations 2030 Agenda and its Sustainable Development Goals (SDGs) (cf. Development Initiatives 2020, BICC et al. 2021: 87).

The research project "Ways out of Poverty, Vulnerability and Food Insecurity" (in German "Wege aus **A**rmut, **V**ulnerabilität und **E**rnährungsunsicherheit"; AVE) was and is located at this interface: the specific conditions of poverty and food insecurity on the one hand, and on the other hand the instruments of development cooperation, which are still inadequate or underutilized. Building on the analysis of previous problems in reaching the above-mentioned target groups through DC and successful examples of poverty reduction, promising projects (*good practices*) are to be identified and examined in detail.

In this context, it is important to analyse the causes of the respective success in detail in order to work out the replicability of good approaches for a broader circle of DC measures in other situations and in other countries and to make them usable for the BMZ and other official implementing organizations as well as for non-governmental organizations (NGOs). Of course, there can be no blueprints in DC, and every planned DC project should be subjected to an independent and thorough institutional and socio-cultural examination despite the *good practices* available.

The Sustainable Development Goals (SDGs) envisage the eradication of hunger (SDG 2) and poverty (SDG 1) by 2030. There are now increasingly realistic assessments that the poverty reduction will be less than expected. In view of this, the poverty target will be considered to have been achieved if two to three percent of the world's population are still extremely poor in 2030 and a correspondingly large proportion suffers from hunger. However, even this reduction of the target is considered to be too optimistic, at least under the conditions created by COVID-19[5].

In the vast majority of partner countries of German and international DC, agriculture is the backbone of the national economy, particularly through the employment effect in rural areas, where often up to nine out of ten people of working age continue to be employed in agriculture, animal husbandry or fish farming or in the processing of their products[6]. Although food is produced here for their own consumption and also for millions of people living in cities, the majority of people affected by hunger and poverty continue to live in rural areas and, paradoxically, live primarily from agricultural and / or downstream sector activities (BMZ 2021b).

Against this backdrop, development policy debate always points to unused economic potential, insufficient market production by poorer, smallholder households and a lack of mechanisation and technologisation in agriculture. However, the possibility of entering or expanding market production is dependent on a variety of factors for smallholder family farms. This includes secure access to land and equally secure long-term land use, which is what makes investment worthwhile in the first place, as well as (physical) access to markets and traders, access to high-quality agricultural inputs, agricultural loans and financial services, and finally the availability of labour among farming families. In many cases,

[5] As a result of the COVID pandemic, an additional 125 million people will be considered extremely poor in 2020 (cf. BMZ 2021a).

[6] The country statistics of the CIA World Factbook provide a good first insight (cf. CIA 2021).

however, some of these factors, often several and sometimes almost all of them, are not guaranteed[7].

What is particularly critical is the difficult access to and insufficient use of financial services, primarily credit in the agricultural sector. In 2015, the *G20 Global Partnership for Financial Inclusion* estimated that 2.5 billion people did not have access to financial services in rural areas until then (cf. Miller 2015). In 2017, according to the World Bank, the figure was 1.7 billion (Demirgüç-Kunt et al. 2018: 4), while on the homepage of the NGO Plan International (2021), it is stated that three billion people are denied access.

Women are disproportionately affected by the lack of access to financial services. They have fewer possessions than men which could be used as collateral for loans. They also suffer manifold socio-cultural (i.e. social, economic and political) disadvantages and are excluded from extension services and capacity building in many places. All this leads to an even greater marginalization of women even in places where resources are available in principle (Plan International 2021).

This lack of access to needs-based financial services severely inhibits the development of many family farms. This state of affairs has received attention in the development policy debate for decades, but it has not yet been possible to overcome the problem on a broad scale. This affects almost all farm sizes, with access problems being greater the smaller the farms and the more remote the villages of the owners.

This study focuses on this situation and highlights some of the current problems of rural development financing and, in particular, agricultural financing in the poorer partner countries of German DC. In this context, it will be investigated in which areas the supply side is unable or unwilling to meet the needs of rural smallholder farms, but also which difficulties arise for banks and (micro-)lenders due to the specific demands of smallholders. Based on the preliminary results, field studies are planned in Africa, including Ethiopia, Benin, Burkina Faso, Kenya, Mali, Uganda and Zambia, as well as in Asia in Cambodia and Uzbekistan. The field research will start from the fourth quarter of 2021, taking into account the COVID situation and other underlying conditions.

Barriers between supply and demand are to be identified. In addition, a critical analysis is proposed of financial service offers and their possible negative impacts on farm development, for example in the case of land titles used as collaterals. In this way, approaches in state development cooperation are to be promoted that have been proven to sustainably support the market production of smallholder family farms. These approaches are also intended to be socially acceptable, including the considerations of gender justice.

In addition, the financial support of the upstream and downstream sectors will also be examined, i.e. those micro, small and medium-sized enterprises that provide agricultural means of production, process and transport agricultural goods. In this way, small farmers are integrated into national value chains, rural employment – especially of young people – is promoted, and through their economic activities, value creation and thus sustainable growth is also strengthened locally.

The studies are to include both formal and informal financial service providers or money lenders and look into their potentially different roles. Cooperative as well as traditional approaches to collective saving and lending are also included. While the so-called

[7] Compare earlier research by the authors of this study (e.g. Bliss / Gaesing / Mahla 2017, 2. Updated edition 2021).

microfinance sector has only established itself in recent decades and has recently expanded considerably, cooperatives have existed in many countries since colonial times, and increasingly so in the post-independence years, promoting local business development through various savings and lending mechanisms. Self-help support groups that provide similar services through various savings mechanisms, such as the *tontine* in many African countries, *arisan* in Indonesia, *sanduq* in Syria and Sudan or the *gam'aiya* in Egypt and elsewhere in the Middle East and North Africa (MENA region), for example, have a colonial and even pre-colonial tradition[8].

When people talk about rural financial services or agricultural financing in the context of innovative financial services today, it is no longer limited to saving and lending money. The rural (micro-)financial sector rather comprises various services and financial products that go beyond the classic agricultural credit: for instance, the offer of savings or investment accounts, formal and informal money transfers with the support of mobile and digital tools, and the increasingly important agricultural insurance for smallholder farms. Such insurance policies, which are primarily designed to protect against climate uncertainties, can make a decisive contribution to reducing the vulnerability of small farms in particular to the increasing number of extreme weather events worldwide. Equally, however, they also increase the willingness of financial service providers to grant loans by providing a certain degree of security.

In recent years, these have been joined by broader leasing models, contractors and machinery rings for agricultural machinery and equipment. Combined models that were already common in the past, especially with regard to cash crop production (e.g. cotton in the Sahel countries), such as contract farming on the basis of loans (as the provision of money or in the form of agricultural inputs), have been further developed into various forms of financing contract partners in value chains, the so-called agricultural value chains. Innovative offers that are used worldwide in 90 countries by more than 850 million registered customers, primarily via mobile phones (cf. Pasti 2018: 7), make a significant contribution to improving smallholder households' access to financial services.

However, financial services are also examined with a view to a qualitative impact criterion: An important prerequisite for evaluating a development cooperation project or approach as a *good practice* is that savings, loans and other contributions to agricultural financing are not only aimed at a relative improvement in the living conditions of the borrowers. An effect should not be considered to have already been achieved if, for example, their incomes have been increased by 10, 20 or 30% without exceeding the poverty line. Rather, examples of *good practice* should be able to make a relevant contribution towards empowering the beneficiaries in economic terms with the help of the loans and to sustainably lead them out of poverty, i.e. to move them above the respective poverty line in the medium term.

The "target group", in the sense of groups of people who are the focus of this study and the upcoming field research, is formed of farmers who have access to land in the broadest sense[9] and who, in addition to subsistence production for their own households, also work for the market. Thus, in the model of the Organisation for Economic Cooperation and Development (OECD) on the "five rural worlds", they are primarily assigned to group 3

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[8] The following sections are largely based on the authors' own experiences and research, e.g. Gaesing 2001.

[9] Access to land here means that the persons or households cultivate a piece of land, that they have rights of use for the land (for example through lease agreements), but do not necessarily have to be its owners.

"Subsistence agricultural households and micro-enterprises" and group 2 "Traditional agricultural households and enterprises, not internationally competitive" (cf. Brüntrup 2016). This does not rule out the possibility that members of Group 4 "Landless rural households and micro-enterprises" may also have an urgent need for credit, for example if they lease land or are active in the upstream or downstream sector. Accordingly, they should also be taken into account in the analysis of problems and the development of research questions.

Addendum on COVID-19

The impact of the COVID-19 pandemic on the micro and small credit sector is currently being studied by the World Bank, among others. Using Cambodia as a country case study, the planned INEF study will also attempt to show the development since the beginning of the pandemic. The focus will be on problems with small private loans. It is to be expected that the credit servicing of many informal as well as formal small businesses has run into repayment difficulties due to the loss of contracts as well as the restrictions imposed by national lockdown policies. This means that the microfinance (MFI) sector is currently facing serious problems, although they have been declining since the third quarter of 2020 (cf. CGAP 2020, 2021). Significantly greater problems are experienced by MFI clients with current loans (cf. Malik et al. 2020[10], Brickell 2020, LMFA / CGAP 2020, Rhyne 2020) as well as those households or businesses that currently have no access to loans for various pandemic-related reasons.

During the pandemic, according to the World Bank study "Small and Medium Enterprises in the Pandemic" from September 2020, on the one hand, financial institutions were more willing to grant loans due to increased liquidity and also within the framework of national programmes such as in Mexico, but on the other hand, in many countries, small enterprises and especially informal businesses did not receive any loans at all (cf. Adian et al. 2020). For the latter, loans often did not make sense either; rather, they had to receive primarily subsidies to survive in and after the crisis (ibid.).

[10] "We find that, on average, week-on-week sales and household income both fell by about 90 per cent. Households' primary immediate concern in early April became how to secure food. As a result, 70 per cent of the sample of current microfinance borrowers reported that they could not repay their loans; loan officers anticipated a repayment rate of just 34 per cent in April 2020" (Malik et al. 2020: 138).

Box 1: Terms and definitions of agricultural financing

Rural financing: Rural financing covers all financial services in rural areas, both to private households and businesses in the agricultural and non-agricultural sectors. There is also no restriction to poor or non-poor households and farms (cf. IFAD 2010). To a relevant extent, rural financing also includes investments in peri-urban areas, in rural centres and in the intersection of rural and urban areas.

Agricultural financing: Agricultural financing includes financial services in agricultural activities and agricultural enterprises. In practice, agricultural financing rarely targets very poor households (cf. ibid.), but rather promotes agricultural value chains, i.e. agricultural production including the upstream and downstream sectors. The term is also used for investments in rural infrastructure that have an indirect impact on agricultural activities, e.g. the construction of market and storage facilities and rural road construction (cf. KfW 2017).

Microfinance services: Target groups of microfinance services (MFS) include low-income households and micro-enterprises in urban and rural areas. In contrast to microcredit, the term microfinance also includes savings, money transfers and insurance offers (cf. IFAD 2010). In its origins, microfinance was a combination of private-sector and socially oriented activities, but in the last two decades it has transformed into a broad and often profit-oriented industry (cf. Gabler Banklexikon 2021).

Microcredits: The term “microcredit” originally describes lending to poorer sections of the population and micro-enterprises, usually without material security for the loan. The amount of credit differs significantly depending on the economic environment, even within a single country. In the early years of the development policy debate, the term “microcredit” said less about the amount of the loan, but was rather meant to indicate the social impact (Lützenkirchen / Weistroffer 2012). The origins of the microcredit sector can be found in the granting of very small amounts to women’s groups, usually through donor-supported NGOs (ibid.).

Mobile loans: “Mobile loans” is the term used to describe lending via digital or mobile network-based systems. In digital lending, creditworthiness checks are no longer carried out by employees of a bank or an MFI, but by algorithms. They use the customers’ usage data to assess their creditworthiness. Mobile loans and the associated mobile financial sector are key contributors to global financial inclusion (cf. Suri 2017).

Financial inclusion: Financial inclusion (FI) describes secure, sustainable and affordable access to basic financial services such as savings, money transfers, insurance and loans. Formal accounts with which transactions can be carried out form the basis of financial inclusion (see World Bank 2018b). FI also includes “financial literacy”, i.e. introducing (potential) borrowers to the loans system and familiarising them with it. This includes application procedures, (business) economic considerations of a loan, credit conditions and their meaning as well as issues relating to the risks of taking out a loan.

2. Agriculture, rural poverty and credit

Box 2: Excerpt from an interview with a farmer from Koudougou, Burkina Faso, April 2019

"In K. Province, we all have land. We mainly grow millet and okra. In addition, there is some cotton that we sell. In a floodplain, we also plant vegetables, especially onions. We can make good money with that. However, the yield depends very much on the rain and on how high the water is in the floodplain. Only if it's a good rainy year do we get enough areas irrigated to be able to sell our onions at the market. Onions bring in a lot of money. If we had the opportunity to buy two or three pumps, both the women and the men could plant and sell many bulbs each year.

Why didn't you apply for a loan? Surely it should be possible with the money that just a few hundred square metres of irrigation area with onions can bring in?

We inquired at a bank in K., they noted everything, but then refused a loan. They said they were not sure if we could raise enough money to repay the loan.

Didn't they want to look at your large valley meadow and the fields already cultivated for onions? Then they would have seen that things are going well with you, even without pumps?

No, they said they would only look at a house in the city, for example, or a hangar, to see if that would be enough as collateral for a loan. But they wouldn't go to our village."

(Source: own research documents)

Under SDG 2.3, the global community aims to double agricultural productivity in smallholder agriculture by 2030.[11] Increased productivity promises higher production surpluses, improved market access and greater integration into agricultural value chains, and thus a contribution to poverty reduction through higher incomes. The profits generated are also intended to contribute to food and nutrition security through increased purchasing power, with the opportunity to have a diversified and potentially more nutritious diet.

However, greater integration into market production through increased productivity of smallholder agriculture requires access to improved inputs, agricultural technologies, labour and land. Due to the seasonal nature of agriculture, at the beginning of or during the growing season these investments are not feasible for a relevant proportion of small rural farms on their own. Access to financial services is essential to bridge the gap and cover costs until harvest (and subsequent storage, if necessary, to avoid having to sell at low prices immediately after harvest). Seasonal loans to purchase agricultural inputs (e.g. improved seeds and cultivation methods) and to finance external labour play a central role here. However, investments in farm mechanization, improved storage systems or the development of new agricultural activities (such as vegetable cultivation with the necessary irrigation system, controlled storage and packaging) require long-term loans.

However, short-term and long-term loans are still not very accessible for smallholder farms and are usually associated with immense interest costs, which jeopardize the profitability of a farm investment. The reasons for this are largely institutional. Private credit institutions shy away from rural areas because of high operational costs for being present with branches or agents in the area. In addition, there are (perceived) high risks due to changing weather and

[11] For information on the achievement of SDG 2.3, see UN 2021.

climate conditions, volatility of producer prices and variability of agricultural production (and thus potential defaults on loan repayments in affected regions) (cf. Poulton et al. 2006), high transaction costs for checking creditworthiness while the amount borrowed is low, and the low loan collateral that smallholder households can offer.

The demand side is also often described as being weakly developed. In many regions, for example, there is a lack of information and education about available financial services. Long distances make access to them difficult and low or volatile market prices inhibit the willingness to invest (often triggered by high transaction costs of traders) (cf. Dorward et al. 2009). Due to the poorly developed client relationships between institutionalized lenders and smallholder farmers, informal sources of credit and private contacts often take on this role (cf. ibid.). However, these also require minimal resources and social integration of households and are therefore not a suitable option for many very poor households. Adjognon et al. (2017) therefore find, not at all surprisingly, that smallholder household participation in the credit market, especially for the purchase of productivity-enhancing agricultural inputs, is negligible in Sub-Saharan Africa (SSA). These are mainly financed by income from non-agricultural activities, such as wage labour (cf. ibid.).

In international financial cooperation (FC) in the field of agricultural promotion, studies are often used to prove that there is a direct link between access to financial services and the use of improved agricultural production inputs (cf. Mukasa et al. 2017). This line of argument implies that smallholder households which do not have access to formal or informal credit have a lower agricultural productivity and thus a lower market production. Agroecological approaches are largely ignored in this argumentation, and it is repeatedly emphasised that the lack of access to financial services is a central and development-inhibiting factor for rural areas, especially in low-income countries, and prevents an urgently needed mechanization of smallholder agriculture[12] (cf. e.g. Daum / Birner 2017).

However, numerous recent studies on microcredits to smallholder households also show growing over-indebtedness and thus serious poverty-promoting effects. Accordingly, special attention must be paid to financial services adapted for this target group. While studies show a link between access to financial services and increased productivity, the impact of financial services on the poverty situation of households is not directly causal or provable (cf. Duvendack et al. 2011; Duvendack / Mader 2020; Chowdhury 2009; Hickel 2015; Mecha 2017). Based on the evidence available, agricultural financing must be seen as one mechanism among many in the field of poverty reduction, and less as the silver bullet to bring it about (cf. e.g. Tarozzi et al. 2015).

2.1 Microfinance and microcredits

Leaving aside the cooperative Raiffeisen- and Volksbanks in Germany and Central Europe, a decisive origin of institutionalized microcredit system development lies in South Asia in the 1970s. Initial test runs examined the poverty impact of microcredits on groups of microentrepreneurs and were initially scaled by donor-supported NGOs. Since the 1990s, actors from the financial and banking sectors have also entered the market, replacing NGOs

[12] The German Development Institute published a detailed SEWOH [Special initiative – One World – No Hunger] study on the topic of improved access to financial services with a view to increased mechanization as early as 2016 (see: Ströh de Martínez et al. 2016).

as primary actors on the supply side. At the same time, the focus of lenders changed from group-based loans to individual services (see e.g. Aitken 2013).

The origin of microcredits in the Asian region can still be seen today in the market penetration by region. Globally, the microcredit market reaches over 75% of clients in Asia – in South Asia about 60% and in Southeast Asia and the Pacific regions about 15% – while SSA, for example, accounts for less than 10% of global transactions (cf. Convergences 2018).

The stronger entry of traditional financial institutions was accompanied by a profit orientation of the microcredit sector, which in the early days was still mostly seen as a development policy instrument and supported by subsidies from governments and donor organizations. While this development was initially supported by the World Bank in particular, under the basic assumption that profit-oriented financial service providers can serve demand more efficiently and that profits lead to a broader supply (cf. Aitken 2013), recent developments show opposite effects.

> [...] commercialisation in combination with excessive profit-orientation has often been cited as the main cause for the problems in microfinance. Excessive profit-orientation is made responsible for driving interest rates up, transferring wealth from the poor to MFI managers and owners, as well as for an increasing share of over indebted borrowers among MFI clients (Lützenkirchen / Weistroffer 2012: 5).

Many of the problems of the microfinance sector in the recent past are related to the rapid expansion of the business practices of financial service providers. Rapid growth strategies led to poor credit assessment of borrowers. This is no doubt the responsibility of the MFIs themselves, especially when they are working with vulnerable clients. In addition, market saturation in certain regions with a high density of providers – with unchanged ambitions for further expansion of business – led to a higher willingness to take risks on the part of financial service providers, which did not always pay off and increased the number of unserviced loans (cf. Lützenkirchen / Weistroffer 2012.).

The entry of the microcredit market into the global financial market also led to an increase in interest rates, as this attracted traditional investors. As a result, however, the microcredit market lost its poverty-reducing effect (cf. Aitken 2013).[13] On the contrary, this fuelled the potential over-indebtedness of borrowers with corresponding negative effects on the poverty situation of the respective households (cf. Seng 2018). On the one hand, financial service providers are conducive to development, depending on the context and region. On the other hand, however, their weak risk management and profit-maximizing business practices have triggered and continue to trigger serious over-indebtedness problems and thus severe obstacles to development. However, it should also be taken into account that responsible MFIs provide intensive advice to clients and even help shape business development plans. Where this accompaniment is not financially supported as Technical Cooperation by donor organizations within the framework of microfinance (MF) projects, there must however inevitably be higher transaction fees or interest.

Another problem, often caused by the design of many MF projects in DC, is the adjustment of lending rates to inflation rates in the respective countries (cf. Janda / Zetek 2013). If, for example, the currency devaluation in Central Asian Tajikistan can be assumed to be 15% p.a. and the donors disburse the loans to the MFIs in USD and stipulate in the fund conditions that these must maintain their value and pay interest that covers the costs, then the loan, which is

[13] International financial markets and established players within them have certainly recognized new investment niches in microcredit, but without taking into account social impacts and sustainability.

usually disbursed in Tajik somoni, must be provided with at least 15% additional loan interest and can thus easily reach double with 30% interest for the clients.

Due to the different potential impacts on households, it must therefore be critically examined whether microcredits and other microfinance products, offered by private-sector actors under market conditions, represent a justifiable and target-oriented instrument and should be promoted from a development policy perspective. In the case of negative effects, the poorest households are hit particularly hard, and the question arises whether the existing risk for borrowing households justifies the inclusion in a global financial system. Hence, in the sense of Lützenkirchen and Weistroffer, the question remains almost 10 years later, whether, with respect to very resource-poor households, there is a need to return to more socially-oriented financial service providers and to accompany these measures with regionally adapted advisory services (cf. 2012). As central as sustainable and market-based financial system development is, it is also important to ensure social orientation and protection of poorer households through public funding.

2.2 Informal and formal lenders

When examining the credit sector and its promotion through development cooperation, a distinction must be made between formal MFIs, which are now prevalent in all developing countries, as well as banks, savings banks and other formal financial service providers, and informal lenders or self-help structures. Against this background, the INEF study takes into account the different benefits in the traditional sector (e.g. reciprocal and non-monetary benefits), informal and formal savings and credit offers, repayment procedures, interest and other expenses associated with credit, as well as any required or necessary loan collateral.

The initial question in this context is how people in remote areas, where financial service providers have not been present so far, or groups of people who are cut off from markets and live (predominantly) on subsistence farming, can obtain comparable services with loans in order to operate more efficiently and effectively and thus generate additional income. This is where ethnological and social science research can provide answers (see Section 2.2.1).

Building on the above, the question arises as to when smallholder households make use of monetary credit for the reasons mentioned (provided it is accessible) and which form (formal or informal) they prefer. Some ancillary questions in this context are also whether informal lenders are being crowded out by the growing supply of MFIs and, if so, what impact this has on agricultural financing as a whole. Finally, the increasing debt problems associated with the growing number of credit offers must also be taken into account: when combined with inefficient or sometimes inexistent mechanisms to check loan collaterals, do these parallel offers promote over-indebtedness?[14] Hence, it can be observed that over-indebted households take out informal loans in order to be able to repay a formal loan or, inversely, that MFI services serve the sole purpose of paying off an even more expensive informal loan: Are "modern" loans via banks with fixed interest rates and manageable repayment dates perhaps a solution to escape from the debt bondage of unscrupulous individuals in the money lending profession (a profession which should not be condemned per se)?[15]

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[14] For a discussion on over-indebtedness, see also Chichaibelu / Waibel 2017, Guérin et al. 2018, Hossain 2013, Schicks 2014 or, in the context of COVID-19, Brickell et al. 2020.

[15] Cf. the discussion in Berg et al. 2020, Mookherjee / Motta 2016.

For the African continent, macro data still show a clear preponderance of informal lenders compared to formal financial service providers.[16] While only 6.9% of the adult population borrows money from banks or MFIs, 34.6% of respondents to a study on financial inclusion said they borrow money through informal financial service providers. Kinship or neighbourly relations, representing 11.5% of respondents, also play a greater role than banks and formalized service providers. This greater role applies with respect to the frequency of use of various supply sources, but not necessarily with respect to the amount of money lent (cf. Alhassan et al. 2019: 7).

2.2.1 "Loans" without money lending

Probably the oldest form of informal credit is the gift or present in the sense of the French sociologist Marcel Mauss ("system of total services"), which was found in simple planter societies, but also found its way into Germanic law and the law of ancient Rome (Mauss 1978). In principle, in many countries, e.g. in the MENA region, it was and still is a matter of giving away or lending something with the certainty of getting back the same or a similar equivalent value later. However, this usually time-delayed exchange of gifts, at least when money is involved, relates less to investments in agriculture and more to financing the costs of social events: In Egypt for example, relatives and other guests bring cash as gifts for a wedding or the circumcision of a boy, which is used to pay for the expenses of the festivity, i.e. also the catering for the donors. Conversely, it is expected that at the guests' celebrations, the organizers of the social event, who have now been given money, will in turn give money – and in the same amount as they received from the guests at the time[17]. In many societies, according to the experience of the authors of this study, it is even customary to record in writing the value and recipients of both the gifts received and the gifts given.

The authors are not aware of similar reciprocal mechanisms for the financing of agriculture-related expenditures in which money is central, but they are aware of reciprocal labour services, which in turn can have a monetary value. In West Africa, for example, neighbourly help in preparing (clearing) a field saves money that is urgently needed elsewhere by small farmers during the short cultivation period at the beginning of the rainy season to pay auxiliary workers, but which is hardly available through agricultural loans. All parties are very conscious of the importance and also the material value of the neighbourly help, because the returning of the service is handled just as strictly with regard to its timely realization (= "repayment") as in the wedding example from Egypt[18].

It is interesting to note that modern credit terms can certainly be compared to the terms of this gift or benefit exchange, at least with regard to the "allocation" of benefits. It is simply impossible to obtain a loan from a bank if the risk of a possible default on repayment appears to the credit managers to be above average. It is the same with regard to the gift or work.

[16] The formalization of informal institutions is the primary objective of a number of DC projects. At least some donors expect this step to bring advantages for both financial service providers and their customers (cf. FISPLG 2020 and FISPLG 2021). However, when considering all financial services, i.e. including money transfers, savings and loans, almost 70% of the African population still has no access to formal financial services at all (ibid.).

[17] At least this is true for members of the same social class. However, this does not usually apply between social classes (for example, between a worker and his boss). In these cases, the "higher-placed" person is expected to give more than he or she is entitled to expect.

[18] For examples of reciprocal support, see Basir et al. 2020, Jana et al. 2013, Qalyoubi-Kemp / Kemp 2007, Sabourin 2020, Sutherland / Burton 2011, Sun 2012.

Similarly, there are also "securities" that are expected from a provider of services, in the form of certainty of returning of the services received. These are not given or provided (apart from "charitable" exceptions) if there is a high risk that the reciprocal mechanism will not work, i.e. that the person supported will not give back or provide neighbourly help. Ultra-poor households[19], for example, which do not have a minimum of labour power that they can use for the benefit of others and could not compensate a neighbourly labour service with drinks and food, are excluded from support by the latter (cf. on Ethiopia Gaesing / Hailegiorgis 2019).[20]

2.2.2 Preliminary forms of professional lending

The next step towards informal financing is the often interest-free but contractual loan from relatives, friends, neighbours and others, where the contract can be a promise, an agreement in front of witnesses or even an informal acknowledgement of receipt of the money with or without arrangements for repayment. The borrowers are bound by the promise and social pressure within the family, neighbourhood or village usually ensures repayment in accordance with the contract. However, on the one hand, this is not always the case and on the other hand, loans within the (extended) family are definitely discussed as problematic, especially but not only in Africa.[21]

It is not only in poor countries that this type of informal loan transitions smoothly into a compensation-oriented form of money lending (e.g. by taking into account inflation compensation in repayment), and further into a profit-oriented form of money lending when the same actors are involved. Relatives, neighbours, and perhaps less often friends may also take interest for lending money, but usually less than people who primarily practice money lending as a business model. If these interest rates were not usually even much lower, the shame factor would probably deter many people in need of credit from taking out loans from relatives, and even more so from neighbours. However, these lenders are also a last resort when no other source of credit can be found anywhere else.[22]

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[19] In English, the terms *extreme poverty* and *ultra-poor* are often used synonymously. However, we distinguish the two terms here following Lipton (in IFPRI 2007) and define ultra-poor as people who can only afford 80% of the energy they need or have to spend at least 80% of their income on food and/or have only 40% of the income of the extreme poor and no self-help capacities.

[20] Such a case was recorded in the South Sudanese town of Yei in 2016, when a co-author, in the context of a WASH analysis, met young people who were bringing an old woman a canister of drinking water from a standpipe. She was extremely poor and could no longer fetch water herself, they said when asked about the facts. In the discussion that followed, it emerged that the old woman was also occasionally slipped some food by the neighbours. Looking at the broken thatched roof of the mud hut, the researcher asked whether help could be expected here as well. The young people explicitly said no. Help with roofing was a typical job in Yei, where at least a dozen mainly young men from the neighbourhood would help and merely be fed as a reward. However, this help was only offered to those who in turn would help others with similar work. Of course, the old woman was not able to do this and she could not afford the food, which was a minimum obligation.

[21] The American Xeto-Business Guide (2020) "A complete guide to financing your business" explicitly points out in the section "How to borrow responsibly from family and friends" that "Loan, investment, gift? ... This can be one of the biggest misunderstandings when taking money from family or friends" (Xero 2020). It should be noted that "loans" can also be regarded as a gift.

[22] On this transitional area see, among others, Dong et al. 2012, Fafchamps 2001, Ferrara 2003, Mohieldin / Wright 2000, Turvey et al. 2010 or Udry 1990.

2.2.3 Informal professional money lending

There is a considerable difference between private, informal and cheap loans on the one hand and (semi-)professional, but still informal credit through local money lenders on the other hand. The latter form of borrowing involves considerable costs and is associated with certain risks.

Informal money lenders often have the advantage of living in close proximity to their clients. They tend to have a much lower collateral requirement, which is their biggest advantage for poor borrowers without explicit resources (e.g. land, house, and livestock). They increasingly rely on personal knowledge of the borrowers in their immediate environment and their integration into a village or neighbourhood community. Informal service providers thus often also take over the provision of financial resources during the phase of a business in which it is not yet creditworthy for the formal credit market. The fact that the applicants "only" work in agriculture is also not an obstacle, and no business plans are looked at either (cf. Zhou / Takeuchi 2010). Accordingly, informal lenders ("money lenders") fill a crucial gap in the credit market that formal lenders have so far hardly been able to fill, at least at the level of individual loans. Looking ahead, this also means that they will continue to cover a certain demand segment and play a role.

This does not even always have to be related to the question of collateral. Many even medium-sized farmers or livestock keepers are not creditworthy because they have no identity papers, or they have no "residence" because their village is not (yet) formalized. This is also true for many informal settlements in urban centres where there are no "addresses".[23] The telephone number, which effectively replaces both address and ID for smaller informal transactions, is not recognized by formal financial service providers for understandable reasons.

For example, in a village in Cambodia, if a family member has an accident and needs 30 to 50 USD quickly for transport to a hospital or, in case of death, a few hundred USD for the funeral, the informal money lender is immediately accessible and the money is available after a few minutes[24]. However, this uncomplicated service also has its price. The conditions are often, but not always, significantly worse with informal money lenders than with formal ones (cf. Berg et al. 2020). This has to do with the residual risk that a client will simply disappear, but most of all with the petitioners' plight and their lack of opportunity to get the money by other means.

If formal money lenders already have to take interest rates of 20 to over 30% p.a. in countries with weak currencies and a tendency towards high inflation, the *money lender* often takes the double and triple of that amount, with extremes for which the term usury is flattering. For example, India's National Herald of 9 December 2020 reported on a money lender who demanded a repayment of 47,000 rupees for 35,000 rupees over six days via a

[23] Among other things, this was the result of an evaluation commissioned by KfW in Honduran *barrios*, where many residents had pressed for legalization of the settlements, which were initially almost always informal, in order to be able to obtain an address, which in turn was indispensable for finding formal employment and taking out loans (Bliss / Neumann 1999).

[24] The examples cited are reasons given very frequently for taking out (expensive) loans from the nearest *money lender* during the INEF household surveys in Cambodia 2017-2018 on Social Land Concessions (Hennecke et al. 2018) and on Indigenous Land Titles (Hennecke et al. 2017).

Chinese app. INEF's previous research in Cambodia gave examples of 50% interest per month on a loan of USD 150[25].

Moreover, as often reported in India, the village or small-town *money lender* can turn out to be an unpleasant business partner if the debtor defaults. In the best case, social pressure is exerted by making the case public, approaching relatives of the debtor or trying to influence the debtor via local authorities. In worse cases, more drastic measures are also taken[26].

2.2.4 Formal lenders in the agricultural context

In order to curb the negative consequences of private lending, e.g. in Vietnam, it is proposed to offer more generous and broad-based formal small loans and microcredits (cf. Lainez 2019)[27]. Formal financial service providers can be commercial banks, which usually offer both savings options and money lending. On the other hand, there are also more and more state-registered "non-bank organizations" and MFIs subject to financial supervision, which are mainly involved in the business of smaller loans. These loans usually start at EUR 20 to 50 and usually have a limit of EUR 500 or even less. Often, this limit can only be exceeded after the first rounds of credit have been successfully processed. Depending on the country and legislation, however, "micro" financing can also reach sizes of EUR 3,000 to 5,000 and more, which is the case in Cambodia (Fig. 1) or Uzbekistan, for example.

The next segment (and overlapping with the microloans described above in terms of loan size) is the so-called small loans usually granted by banks or savings banks. In the DC context, these range from EUR 1,000 to 3,000 as a lower limit and EUR 10,000 to 15,000 as an upper limit[28]. However, they play an even smaller role than microcredits in rural areas. Those who have financing needs of several tens of thousands or even hundreds of thousands of EUR will usually have to turn to a bank in the provincial capital or even in the national capital. One example is a woman entrepreneur in Burkina Faso visited in the context of previous INEF studies, who runs a business which at times employs more than 800 workers for mango processing. This sector is not excluded in the INEF studies. However, it does not play a role for smallholders themselves, but it does in the downstream sector, such as rice or grain mills.

The very strong expansion of MF service providers in recent years has generally not resulted in a decline in the activities of informal service providers. They mostly operate side-by-side and sometimes even complementarily (cf. Ovesen/ Trankell 2014).

However, part of the MFI sector sees itself as a counterweight to so-called "loan sharks". In Thailand, a massive state-supported campaign against such loan sharks was already running in 2015. A compilation by the *Economic Intelligence Center* (EIC) assumes that

> "[...]within the initial two to three years of the Nano-finance scheme, Nano-finance's loans will amount 35 to 60 billion baht. Although the program aims to allow the grassroots to have easier access to obtain credits, the loan issuance may initially be concentrated at two main groups: 1) current borrowers of informal loans and 2) bank borrowers that are classed as special mention group (Chonlaworn / Pongpirodom 2015).

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[25] For a general account of loan sharks in Southeast Asia, see Musari 2019.

[26] "This was the second attack, the first happened a year ago when the two poured kerosene on my mother while she was working in the fields," reads a 30 March 2018 report by Shantanu Guha Ray in the Indian internet magazine The Week (Ray 2018).

[27] At the same time, individual countries are trying to reduce the excesses of private money lending through criminal law regulations (cf. SRoV 2018).

[28] However, the transition from microcredits to small loans is fluid and varies from country to country.

The first group in particular is to be enabled to break away from loan sharks in this way.

In India, in a similar context, around one and a half million informal workers had petitioned Prime Minister Narendra Modi in early October 2020 to save them from loan sharks and "labour traffickers". Specifically, the government was asked to disburse money worth USD 81 per beneficiary (Nagaraj 2020).

Fig. 1: Multifunctional hand tractor – for many households in Cambodia, a typical investment between USD 1,200 and 1,800 for which they have to take out a loan.

Formal MFI financial services as an alternative to loans from loan sharks seem plausible at first glance. The interest burden is lower and, above all, MFI loans are based on fixed rules. However, many debtors complain about massive pressure, also from formal lenders, should the repayment of a loan fall into arrears, which often happens, not only in times of COVID-19, especially where lending is handled "loosely". In Cambodia, for example, where MFIs compete fiercely and advertise their services aggressively, there are numerous cases of MFI representatives harassing defaulting borrowers (cf. Navin 2015).

In order to be able to repay loans on time, this leads, among other things, to the taking up of child labour, forced labour migration abroad or the loss of arable land, which can destroy a family's economic existence. In this context, criticism from both national and international NGOs is also directed in particular at those MFIs that receive aid within the framework of international DC (cf. LICADHO 2019, HRW 2020; see also Section 2.3)[29].

[29] Cf. the debate currently taking place in Germany, in which a question from the Die Linke parliamentary group in the German Bundestag in 2020 also addressed the role of German donors in this context (Deutscher Bundestag 2020 / 2021).

Cambodia, however, is not alone. In other countries, too, there is a public discussion about MF. In India, this is a topic of wide debate, e.g. in the daily and trade press[30]. Even with regard to Bangladesh, which is considered by many authors to be the success country of MF *par excellence* with the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC), there are critical voices, like Banerjee and Jackson (2017), that often refer to the degree of indebtedness in already previously impoverished communities.

2.3 Land as loan collateral

The central difficulty of formal lending for agricultural purposes is often referred to as the lack of loan collateral on the part of the farms requesting it. Even if they have secure access to land, ownership of the cultivated land is often unclear. In addition, land use rights can overlap, for example during the rainy season perceived by arable farmers and during the dry season perceived by pastoralist societies (transhumant, semi-nomadic or fully nomadic). There is also the problem that traditional rights of use, which still dominate in many countries in West Africa, for example, are not documented as property titles and thus cannot be "encumbered" (cf. iied 2014).

The above mentioned as well as other ambiguities about the legal status of land lead to the fact that banks and MFIs in countries with largely traditional land law have little interest in principle in considering land as collateral for loans. In addition to land, many small farms also have few significant assets such as means of transport or agricultural machinery.

In many places, DC is striving to formalize land use rights and to transfer them into registered property titles (e.g. Ethiopia, Benin, Cambodia, Laos, and Rwanda)[31]. Such formalized land titles, combined with the right of the owners to sell the land registered in their name, are suitable as collateral for agricultural loans – at least in theory. Unlike an expected harvest as collateral or a family's livestock, the value of land is relatively well protected from events beyond one's control. From the perspective of the borrowers, land can therefore offer the possibility of larger investments in the business, while the countervalue of land ownership serves financial service providers as collateral for potentially large loan amounts and especially for long maturities.

However, the interest of the users usually goes beyond this purpose. The security gained with regard to the use of the land also enables farmers to make longer-term investments in the farm, independently of loans, and it also reduces land use conflicts, not only in the Sahel countries (cf. Colin 2017).

What is often forgotten here, however, is that for borrowers the link between a loan and land is associated with an immense risk. Because this is exactly what the banks actually want to avoid: factors that cannot be influenced, which can result from the weather, remain a core risk for the farming business, so that loans for production guarantee either no countervalue or insufficient countervalue. In this way, the loan and thus also the land are put at risk. A loss of land as the most important and often only (noteworthy) capital of a rural family can endanger

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[30] See *The Economic Times* from India, as early as 2011 at https://t1p.de/35wq [11/2021], more recently (2020) at https://t1p.de/tbg9 [11/2021] or *The Wire* (2018) at https://t1p.de/m3mb [11/2021]. Abroad on India, see e.g. *Brookings* (2010) https://t1p.de/2zmx [11-2021], Haldar / Stiglitz 2013 and Reddy et al. 2020.

[31] See GIZ Global Programme Responsible Land Policy (Ethiopia, Benin, Burkina Faso, Côte d'Ivoire, Laos, Madagascar, Peru, Uganda, and Paraguay) at https://t1p.de/njwh [11/2021]; Fact Sheet Laos: https://t1p.de/m4rq [6/2021], Fact Sheet Peru: https://t1p.de/qki1 [11/2021].

the business even with a partial loss and, given the limited and non-existent income alternatives in the village, thus threaten their economic existence (cf. Fenton et al. 2017). The consequences are often migrations to (peri-)urban areas, which usually begin in slum areas and all too often end there for the affected generation (cf. Kelly / Baumann 2011).

The possibility of being able to use formal land titles as collateral to obtain loans is quite controversial. In Ethiopia, for example, where almost nationwide land certification is being promoted, the use of land titles as loan collateral is also being tested in rural areas in a pilot project. Advocates see this as an opportunity for smallholder farmers to finally access credit that is otherwise hardly available, as is already possible in the urban sector. Sceptics, on the other hand, fear that this possibility could lead to considerable land losses on the part of farmers in the event of repayment difficulties (cf. Ghebru et al. 2016).

In DC, it has so far generally been assumed that formalized land titles have a positive impact on access to the credit market and thus promote farm development and increase farmers' incomes. At the same time, it is assumed that this will also provide higher overall incentives for long-term investment in operations. Possible negative consequences of the formalization of land titles have so far not infrequently received no or at least too little attention in the formalization processes, even though the loss of land due to loan repayment difficulties can have the aforementioned devastating consequences. The impact of land title formalization on the poverty situation, i.e. a trade-off between potential farm development and, on the other hand, the risk of deprivation of economic and social livelihoods, will therefore be a central question for the INEF studies in several countries.

The fact that many farmers often have little knowledge about the use of loans and the risks involved means that it is fortunate that many MFIs appear to be rather cautious about accepting land as standard collateral. In southern Benin, for example, overlapping titles (i.e. conflicting traditional and modern rights) are an important reason for not using land as collateral here, and not only in exceptional cases. In Uganda, according to initial information, one reason for the low interest of MFIs in this form of collateral security is the small-scale nature of the land, which is also further fragmented through the division of inheritance rights. However, there are also counterexamples where, on the one hand, land titles are common as collateral, but on the other hand, the danger of losing these titles through aggressive competition among loan providers as well as lending policies seems to be quite real. Cambodia has repeatedly been in the news in this regard, at least in recent years, which is why the connection between negotiable land titles and land loss in the face of over-indebtedness will also be examined using this example[32].

Even if there seems to be a connection between loans and land losses in Cambodia, it should not be generally assumed that there is a widespread hidden agenda in the MFI sector aimed at expropriating farms. Land as collateral for agricultural loans, like residential buildings, represents little value to banks and MFIs, especially in remote areas, as it takes considerable effort to dispose of, if a sale is possible at all. Here, it is unlikely that lenders will

[32] The discussion about over-indebtedness and its negative consequences has been going on for Cambodia for about 10 years (cf. Bylander 2014, Bylander et al. 2019). While there were only just over 200,000 borrowers here in 2000 with an average loan of USD 119 or 42.66% of GNI p.c./p.a., in 2015, there were more than 2.3 million people with an average loan size of USD 2,283 and 240.32% of GNI (Bylander et al. 2019: 144). By 2017, the number of borrowers had grown slightly to 2.4 million and the average amount had increased significantly to USD 3,370 (LICADHO 2019: 1). This means that Cambodia has the highest lending rate to the private sector worldwide in its country group *(Medium human development* with an HDI of 144, cf. UNDP 2020).

plan for repayment difficulties in advance through casual lending and thus aim to obtain land registered as collateral, even in countries with dubious governance and corresponding judicial systems.

In the urban environment, especially near a fast-growing city like Ouagadougou in Burkina Faso or Addis Ababa in Ethiopia, the situation is completely different. Here, land represents real collateral from the very first minute, which can find buyers at any time and can even provide the lender with additional profit over and above costs and interest income. Here, it may also be profitable for lenders to have the land in mind as the main target from the very beginning, and to count on repayment problems on the part of the borrowers. If a bribable judiciary is then added to the mix, competing claims to a title on loan can also be eliminated if necessary. Accordingly, DC would have to look very closely at what happens and could happen with formalized land titles. Depending on the region, the same rule on land as collateral for loans can have a very different consequence. In case of doubt, DC would have to consider at an early stage which parallel legal arrangements should be made in order to be able to prevent conflicts in the future.

With a view to improving access to credit, formal land titles can play an important role. However, initial analyses point to considerable risks when such titles are used as collateral for loans. Their added value compared to traditional land use claims lies rather in the fact that they can be the basis for standard land values and, with the inclusion of actual use, can facilitate the estimation for turnover and thus the credit risk.

Interim conclusion*

- In most countries, the (pre-)financing of agricultural activities, including upstream and downstream activities, starts independently of formal financial service providers and also long before the use of informal money lenders. The (reciprocal) provision of labour between neighbours can thus be seen as such a preliminary stage, but above all also informal savings groups, as they are increasingly run by women.
- Especially the latter, like the *tontine*, have an important function in smaller investments in households and businesses. They also serve to safeguard the stakeholders, which is why it could be problematic to divert them into risky formal financing structures.
- The widespread informal money lending in rural areas is an important contribution for poorer households to obtain loans in the shortest possible time in case of sudden events such as illness or death. However, these are often associated with high costs and can lead to massive over-indebtedness, especially of poor households, not only in exceptional cases.

** This and the following interim conclusions are snapshots that will be further completed, refined or modified through the ongoing research of the project.*

3. Agricultural insurance

Smallholder households are considered particularly risk-prone by lenders. Especially the large number of smallholder farmers who primarily use rain-fed agriculture are especially affected by extreme weather events and seasonal, weather-related fluctuations in production. This state of affairs is significantly driven by climate change and has a corresponding negative impact on the rural financing market. This makes agricultural insurance services all the more important for smallholder households. The opportunity to secure agricultural loans through insurance, but also to protect one's own farm against crop failures independently of taking out a loan, can secure livelihoods and prevent a slide into absolute poverty. Agricultural insurance is therefore seen as a means to avoid poverty and food crises in times of large-scale crop failures and to sustain farm developments (cf. Janzen / Carter 2019).

So far, however, in the event of weather-related crop failures as well as other shocks, such as accidents or sudden cases of illness within the household, movable assets have been the first to be sold, which in smallholder agriculture primarily means livestock. Having to sell livestock due to internal or external shocks often sets back the development of smallholder farms by years. The economies of Sub-Saharan Africa and South and Southeast Asia are particularly vulnerable to the impacts of climate change, even in areas other than agriculture. The low prevalence of insurance for households and businesses makes it difficult to recover quickly after extreme weather events (cf. Jarzabkowski et al. 2019).

Against this background, the *InsuResilience Global Partnership* was launched at the G7 Summit in 2017. The aim of the initiative is to better prepare countries that are particularly affected by the consequences of climate change for shocks and climate disasters and to mitigate their impacts. A coherent insurance system is to be established through climate impact financing with the help of a wide range of partners from business, politics, science and civil society. By 2025, 500 million people are to benefit from the services offered and be better protected from the consequences of climate change (cf. InsuResilience Global Partnership 2019a).

The dominant form of insurance in reaching large parts of the population in the Global South with regard to mitigating the consequences of extreme weather events and thus also the effects of climate change is the index-based insurance. Index-based insurances are essentially based on a defined geographical zone for which a specific basic value is determined on the basis of weather data or harvest results. If the set index (e.g. precipitation) falls below the set threshold, the insurance takes effect for all policyholders within the geographical zone. Thus, at least part of the harvest loss is financially compensated through a compensation payment.

However, the current biggest challenge in the field of agricultural insurance in the Global South, as with other financial products in rural areas, is the sometimes vanishingly low market penetration (with the exception of India). Globally, it is estimated that only 20% of smallholder households have access to agricultural insurance, and in SSA, it is only around 3% (ISF Advisors 2018: 5). In 2016, it was estimated that only one million smallholder farmers in Asia (excluding China and India) and less than one million in Africa were covered against climate impacts (see Hess et al. 2016: 11; Hernandez et al. 2018: 1). Accordingly, the poverty-reducing effect can currently only be examined in very specific contexts.

The difficulties in establishing climate impact insurance are similar to those in the credit sector. The spatial dispersion of households in rural areas makes it difficult for private actors to profitably tap into the market. Innovative forms of satellite-based, geospatial data-based agricultural insurance and index-based insurances are not yet widespread enough in this

context. This effect is reinforced by the very low experience of households with insurance services and correspondingly required information on conditions, advantages and disadvantages, the system of index-based assessment of claims and the price structure of insurance. This information deficit has a correspondingly negative effect on a natural demand for insurance from smallholder farms. Cooperatives and farmer groups, but also already active microfinance service providers, therefore, represent a platform for reaching smallholder farmers and help to reduce transaction costs (cf. IIF 2020). Contracts concluded, for example, between cooperatives and insurers, but also in the area of value chain promotion, can be passed on to smallholder households.

From the perspective of the insurance providers, the reduction of transaction costs is currently the primary operational goal and the only way to establish the offer on a broad scale. Index-based insurance models are the most profitable option in the smallholder sector, as payments and losses can be recorded automatically. Coupled with mobile and digital solutions[33], this can minimize both transaction costs and the cost of investigating a claim. However, this is counteracted by the high personnel costs required to reach potential customers. This is needed to explain the products and establish a general awareness of existing agricultural insurance in rural areas (ibid.).

However, it must be considered very unlikely whether agricultural insurance, especially private-sector profit-oriented offers, can be financed by poorer households, which are particularly vulnerable to extreme weather events and crop failures. This raises the question whether state-subsidized agricultural insurance is needed instead. More generally, it raises the question whether dealing with climate risks in general is a macroeconomic task (for insurance of state portfolios see *African Risk Capacity*)[34]. However, the income situation is not the only factor that affects the willingness to take out agricultural insurance. This willingness can be promoted by education, risk awareness and a willingness to innovate (cf. Hill et al. 2013).

Markets for climate impact insurance today come about primarily through massive subsidies of insurance premiums by governments and donor organizations. Whether the reduction in transaction costs described above will lower prices in a relevant way remains to be investigated. Likewise, the question remains open as to whether a private-sector solution can emerge in the end. It should be remembered that the attempt to provide access to climate impact insurances for a large number of rural households in the Global South will require considerable public support.

It should be noted that subsidized climate impact insurances are an effective means of protecting vulnerable households from climate change and can prevent households from sliding into extreme poverty in the event of extreme weather events. This can be a developmentally targeted and more favourable measure than social security systems and humanitarian aid, which have to be deployed after climate disasters. It is unlikely (unless drastic measures are taken in the shortest possible time to reverse the current climate trend) that a purely market-based supply, with an appropriately designed price structure, will reach large parts of the population (cf. Surminski et al. 2016). The risk for insurers drives up insurance premiums to a level that is unaffordable for smallholder households. At this point,

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[33] The market share of agricultural insurance (livestock, crop insurance or insurance against extreme weather events) among digital insurance is currently only 3%. Accordingly, digital solutions are still very weakly represented in this segment (cf. Andersson-Manjang / Naghavi 2021).

[34] At: https://www.arc.int/ [11/2021].

however, the question may be raised in any case, in the sense of global justice, whether households particularly affected by climate change, which have in no way contributed to the causes, should bear the costs of protection against the consequences (ibid.).

Agricultural insurance is a promising model for access to credit. Linking loans to agricultural insurance enables providers to lend in regions that are heavily affected by extreme weather events and climate change and are considered too risky without insurance. Similarly, it allows farmers to engage in risky but often more profitable agricultural activities and take out loans without the fear of facing over-indebtedness in case of crop failure (Belissa et al. 2020; cf. IIF 2020). Precisely because insurance lowers the risks of borrowing, it potentially encourages borrowing among poorer households, while insurance can serve as loan collateral from the provider's perspective (cf. Meyer et al. 2017). However, a key risk always remains in the area of index-based insurance, which is by no means limited to smallholder agriculture in developing countries: individual cases such as punctual weather events in which farmers experience losses, which, however, are not regionally pronounced to the same extent and are therefore not recorded by the weather stations, represent a considerable risk, especially for poorer households (so-called baseline risk) (cf. Clement et al. 2018). In the case of a combined granting of loan and index insurance, not only the loan but also the insurance premium becomes a burden for the households concerned.

Interim conclusion

- Agricultural insurance can play an important role in protecting against climate impacts. In particular, the temporary drop into extreme poverty and negative consequences for business development are prevented or mitigated.
- Climate impact insurance can therefore be an important building block for increasing the resilience of smallholder households.
- The current market penetration of climate change insurance in agriculture in SSA and Asian countries is negligible. Exceptions are India and China, where the strong subsidization of insurance premiums supports the spread. When linked with lending, insurance can reduce risks of over-indebtedness. This makes it possible for farmers to pursue activities that might be too risky without the insurance.
- Households that have to increase their household income immediately after taking out a loan (often triggered by the short loan term) in order to repay the instalments will rarely be in a position to pay an insurance premium on their own in addition to the interest on the loan.
- So-called basis risks, i.e. potential discrepancies between the actual loss incurred and the insurance sum paid out, represent an uncertainty for the persons taking out insurance that must not threaten their economic existence.
- Agricultural insurance is not a stand-alone solution and is not suitable for all segments of the population. The poorest households in particular will not be able to afford the insurance premiums in addition to the loan costs, which is why incentives to support lending through insurance must be designed to suit the target group, i.e. possibly subsidized for small businesses and microbusinesses.

4. Digital and innovative solutions in rural areas

Another challenge for commercial banks and MFIs to expand their services in sparsely populated rural areas is the need for a wide network of branches and representatives to reach households that are sometimes highly dispersed in the region and lack infrastructural connections. Developing these markets would involve high operational costs and would be difficult to refinance, especially when considering the low level of borrowing by the rural population. Building on this, more and more digital providers of financial services are currently establishing themselves, partly via app-based processes, but also those that can be operated with a simple mobile phone (USSD-based) (cf. Burns 2018).

Fig. 2: Kiosk for sending and receiving mobile money transfers from the provider Orange in Bamako, Mali

The money transfer system M-PESA, introduced in 2007 by the Kenyan mobile phone provider Safaricom, received international attention. M-PESA replaces a traditional bank

account with an account that is linked to the user's SIM card and is activated after one-time identification. Users can initiate money transfers from their account or enable physical money withdrawals at registered branches (mostly local shops) by sending identification codes. Through Safaricom's strong cooperation network, such branches are available in almost all village centres in Kenya. The service was expanded in 2012 to include savings deposits and loans, thus covering basic banking functions (cf. Burns 2018).

Mobile financial services are currently rapidly driving access to MFI products, especially on the African continent. Between 2014 and 2017 alone, the proportion of adults with a mobile bank account in SSA grew from 12% to 21% (cf. Demirgüç-Kunt et al. 2018: 20). As of 2020, there are over 500 million registered accounts in Sub-Saharan Africa, of which over 150 million are active monthly (cf. Andersson-Manjang / Naghavi 2021: 14). After mobile financial services received their first boost in East Africa (reaching 74% adult financial inclusion in Kenya), user numbers are now increasing in other parts of the continent. The growth in the rate of access to financial services in SSA is increasing much faster in the mobile sector (up nine per cent between 2014 and 2017) than in traditional financial institutions (up four per cent 2014-2017) (cf. Demirgüç-Kunt et al. 2018). This increase would in all likelihood be much greater in the mobile sector if there were corresponding legal frameworks in all countries on the continent. In Nigeria, the largest potential market for mobile financial services, licences have still not been granted to the two market giants MTN and Airtel in the telecommunications sector for mobile financial services[35] (Munshi 2020; VERDANT Capital 2020), despite announcements by the Central Bank. The next two most populous countries in Africa, Egypt and Ethiopia[36], are also still waiting for a boom in digital financial services. Regulatory difficulties and, in the case of Ethiopia, fragmented mobile network coverage are still obstacles. By tapping into the three most populous African markets, financial inclusion could be achieved for an additional 100 million people (cf. Pasti 2018).

Data for Kenya show that access to a mobile bank account also leads to steady use of money transfers. Remittances to relatives and third parties in other parts of the country, as well as payments for services and goods, are thus made much easier. Domestic money transfers to household members or family members become cheaper and safer with mobile money transfers. Increasing these has a poverty-reducing effect in rural areas for all parts of the society (cf. IFAD 2015).

30% of mobile financial service users in Kenya also use the mobile bank account for savings. However, since the survey does not distinguish between urban and rural areas, it can be assumed that the value in urban areas is significantly higher than in rural areas. For the SSA region, however, the fact remains that informal or semi-formal forms of saving, such as savings groups, are currently more widespread than formalized saving (cf. IFAD 2015).

In general, however, mobile financial services offer great potential for integrating poorer population groups and rural parts of the population into a formalized financial system. This requires a stable mobile phone network, even in remote rural areas, and the availability of at

[35] The role of mobile network operators (MNOs) in the provision of financial services and cooperation models between MNOs and traditional financial industry players are described in more detail in Osafo-Kwaako et al. 2018; Chironga et al. 2017; Meyer 2015; and di Castri 2013, among others.

[36] Kenyan market leader Safaricom recently initiated the formal process for obtaining a mobile financial services licence in Ethiopia. The start of telecommunication services by a consortium led by Safaricom is expected in early 2022. This follows a liberalization of the telecommunications market in Ethiopia (cf. Alushula 2021; Mengiste 2021).

least basic mobile phones in households. Two-thirds of all unbanked people currently own a mobile phone (ibid.), so this is not initially an obstacle to the expansion of mobile payment systems. In addition, the number of people with mobile phones may increase further once adapted services to receive money transfers are available and the corresponding mobile network coverage is available.

In the area of mobile lending, the sector continues to operate in uncharted regulatory territory. In this context, policymakers have to address, on the one hand, which actors are granted a licence to offer mobile financial products (banks, mobile operators or a combination of the two), but also by which state institution the sector is regulated (cf. Blechmann 2016). Especially with regard to the financial inclusion of poorer sections of the population, consumer and data protection also play a central role.

In the area of mobile lending, creditworthiness checks are not carried out on the basis of a physical check or of an existing credit rating scale. Instead, providers usually use the history of mobile services already used, cash inflows and outflows, as well as any previous savings behaviour to assess the user's creditworthiness. This assessment by algorithms reduces the operational costs of financial service providers enormously compared to a classic credit assessment, but is described as significantly more risky, especially since the mobile loans are not secured. Accordingly, the average loan amount allowed is relatively low, e.g. in Kenya and Tanzania at less than USD 100, associated with above-average interest rates and usually designed for a short repayment period (cf. ibid.).

Risks also arise on the side of the users due to the very rapid market penetration. People who have no experience with financial services potentially take out loans without having received appropriate information about the modalities and consequences of late repayment. A study on mobile lending in Kenya found that 19% of borrowers did not fully understand the terms, fees and maturities (see FSD Kenya 2019: 19).

Initial studies therefore see a second wave of over-indebtedness in financial inclusion through mobile financial service providers, similar to what has already occurred in the microfinance sector (cf. Kimani 2020; Bateman 2020b, among others), as the short-term loans are sometimes associated with exorbitant interest rates[37] and are very often used for consumption instead of productive trades. This is reinforced by aggressive advertising by service providers, which encourages impulse borrowing (cf. Blechmann 2016). A study by the Consultative Group to Assist the Poor (CGAP), based at the World Bank, found that about 50% of borrowers in Kenya and 57% in Tanzania repaid a loan late and 12% and 31%, respectively, defaulted on a loan (see Izaguirre et al. 2018). Especially among young borrowers, the repayment rate is below average. This can have long-term negative consequences for the financial inclusion (in this case exclusion) of borrowers if the mobile financial service providers transmit the information to the credit bureau, making future formal loans with traditional financial service providers almost impossible (cf. ibid.).

For people in agriculture, mobile loans with terms of 30 days are not a solution at all to close the credit gap for seasonal cultivation (cf. Parlasca et al. 2022). In the area of mobile financial services, corresponding financial products must also be targeted specifically at small farmers, which must also apply to the terms of the loans. Nevertheless, the effect of current

[37] The Kenyan market leader Safaricom applies a transaction fee of 7.5% on a loan with a 30-day repayment period instead of interest. The fee is not reduced for short-term repayment. For each month of late repayment, a further 7.5% fee is charged, so that Safaricom's lending conditions correspond to an annual interest rate of 90% to 138.2%, depending on the repayment (cf. Safaricom n.d.).

digital offerings on rural areas and thus also with indirect effects on agriculture should also be considered. Widespread sources of income in rural areas such as trade and processing also benefit from loans with short-term payment terms (cf. ibid.).

M-PESA or similar mobile financial service providers offer a good platform on which MFIs can build on to better reach smallholder farmers to finance agricultural investments and thereby reduce transaction costs. From the borrower's point of view, what is particularly important here is a credit period of at least one growing season as well as loan collateral that is accepted apart from registered land. Musoni, a Kenyan MFI, launched the *Kilimo Booster* loan offer in 2015 together with the Grameen Foundation. In order to circumvent land-based loan security, groups of farmers can apply and thus take out loans of up to USD 1,300. After a loan has been successfully repaid, the amount can increase in the next credit cycle. For individual loans, *Kilimo Booster* requires loan security by land and, with loan amounts of at least 950 USD, tends to target medium and larger farms (Musoni n.d.).

Beyond services in the microfinance sector, mobile devices offer further opportunities to reach people in remote regions. The World Food Programme (WFP), for example, uses mobile bank accounts for money transfers in the field of humanitarian aid. The transfer to mobile accounts makes it easier to reach the target group and continues WFP's already ongoing focus on increased cash transfers rather than material aid with the aim of maintaining and strengthening local markets also in times of crisis (cf. WFP 2020, WFP 2021). In the area of social security, mobile bank accounts also offer a secure way to make payments and avoid people having to walk miles to reach a payout point (cf. Gaesing / Mahla 2018).

In summary, financial inclusion is significantly driven by mobile financial services. There is great potential to reach people who have not had any access to formal savings, cash transfers or loans. The development of the sector has just taken off, and further countries are yet to be opened up, depending on the regulatory framework. In the area of credit, innovative ways of securing or checking credit, especially with the help of artificial intelligence and algorithms, will offer new opportunities, potentially also for poorer sections of the population. However, lessons must be learned from the problems of the "conventional" microcredit sector: Too rapid expansion of business and too low standards of credit assessment can cause difficulties for financial institutions and even more for the borrowers affected by payment difficulties. Lack of financial education as well as sometimes complicated credit conditions and high, not always transparent costs are not a good basis for borrowing for all parts of the population. This effect is certainly reinforced by automated lending instead of a direct conversation with MFI representatives. From a development perspective, initial studies on this problem, e.g. from Kenya and Tanzania, should be evaluated in more detail in order to be able to feed into future strategies in the development of the mobile financial sector. In addition, smallholder farmers in particular need products and services specifically geared to their needs. Promotion of the sector offers interfaces to work in the field of cooperatives, farmers' production groups and holistic agricultural promotion.

5. Community financing and savings

5.1 Savings and credit-oriented cooperatives as well as other forms of cooperatives

Forms of cooperatives in rural areas include *agricultural cooperatives*, which take care of the low-cost supply of agricultural inputs such as seeds, fertilizer and implements, as well as the storage and marketing of members' harvests. In addition, there are *production cooperatives* in which producers of mostly the same crops (market-oriented food crops or other cash crops such as cotton) join their forces to exploit synergies through cooperation. A third form of cooperatives is made up of purely *financial cooperatives* that offer savings and credit services to their members. So-called *multi-service or multi-purpose cooperatives* usually combine the above-mentioned services for their members (cf. World Bank 2018a).

In contrast to microfinance institutions, which receive their capital mainly through banks or donor organizations, financial cooperatives or Savings and Credit Cooperatives (SACCOs) and credit unions are based primarily on the savings deposits of their members. In the World Council of Credit Unions (WOCCU), based in the USA, these cooperatives have an apex organization, i.e. an umbrella organization that provides support and advice to 86,451 credit unions in 118 countries worldwide. In addition, WOCCU collects data on SACCOs for each country. WOCCU also operated the *SACCO Growth Programme*, which tested approaches, methods and financial products specifically tailored to poor people in Africa and Latin America from 2006 to 2009. The programme, sponsored by the Bill & Melinda Gates Foundation, achieved an 83% increase in member cooperatives from 52,563 to 96,255 cooperatives from 2006 to 2009. The proportion of people in it who have less than one USD per day increased from 38.9% to 59.1% (WOCCU 2020; WOCCU 2021).

Savings and credit cooperatives are experiencing slow but steady growth in membership of 2.9% per year globally, and in 2014 comprised about 19% of those adults globally who were involved in savings and credit activities ("banked" adults) (World Bank 2018a: 3). One of their advantages is the proximity of the cooperatives to their respective members or customers. The SACCOs offer services such as saving, lending, making transfers and setting up standing orders, e.g. to pay school fees. Some large associations also offer their services digitally, for example many financial cooperatives in Kenya and the Philippines (ibid.). According to Motompa (2016), who studied growth factors of financial cooperatives in Kenya, the digitalisation of services increased their accessibility to the remotest corners of the country. In addition, transaction costs were reduced and communication with markets and supply chains improved (ibid.).

As Getnet and Annullo (2012) point out, the weaknesses of financial cooperatives include the fact that the management is often carried out by insufficiently qualified staff and that capital is limited. Too much regulatory influence of the state on the structures, with quasi-compulsory membership as in the socialist past in Ethiopia, is also seen as negative for the development of SACCOs. In addition, the lack of participation (opportunities) of members and the resulting conflicts between management and members are also stated as reasons for the failure of financial cooperatives. (World Bank 2018a). In Ethiopia, however, the Rural Financial Intermediation Programmes initiated by IFAD since 2003 have been able to make a considerable contribution to poverty reduction by providing financial services through microfinance institutions and financial cooperatives in rural areas (cf. Benti 2019).

5.2 Self-help oriented (traditional) savings and financing systems

In addition to reciprocal aid and the use of informal or formal loans, there is also a successful alternative solution that starts with savings. In West Africa, the *tontine*, and in the Arab world, the *djam'ayah* (informal cooperative), along with countless others worldwide, are traditional savings rings that are usually founded by women among neighbours or within the circle of acquaintances more or less informally, but always with clear rules, for the purpose of saving money for small household or business investments. The circle of women, which may number from less than ten to 20 or more, appoints a member in good standing as treasurer and establishes savings and disbursement rules. It is customary for each member to pay in the same amount weekly or monthly, or more rarely daily (this is most common among market women). This amount is based on the average means available to the members at the time (cf. Figure 3).

Fig. 3: Weekly meeting of a savings and credit group *(equb)* in Ziway, Ethiopia

There are very poor groups with extremely low contributions as well as groups – mostly economically active women – who agree on higher contributions (cf. Gaesing 2001, Bruchhaus 2016). For instance, the contributions could be Francs CFA 100 per week, but also Francs CFA 1000 (= approx. 1.50 EUR) or more. They could be 10, 20 or 50 Egyptian pounds (LE, where 50 LE is approx. 2.50 EUR) or 10 Moroccan dirhams to perhaps 50 (approx. 5 EUR) per week (see Box 3).

The aim of saving is usually to pay out to one woman at a time either the amount of money collected during a fixed period or even just a part of the available money, so that she can make an investment that would otherwise hardly be possible. This may be a cooking pot or a small gas cooker, but also a private or business refrigerator. In small farming communities, the capital is often used to purchase small livestock or water tanks, or to improve the stables. More rarely, deposits are collected in a *tontine* and only disbursed proportionally when needed; in Kenyan self-help groups, table banking (i.e. a group account from which money can also be borrowed) is more common.

Box 3: Umm Ahmad and her *Gam'ayah*

Anonymous interview by co-author Frank Bliss in Egypt, January 2019

'Umm Ahmad runs a small general shop in al-Minia, Upper Egypt. It is actually a kiosk of a few square metres made of boards (Arab: *kushk*) leaning against a brick wall of a house. In front of the kiosk are several boxes of tomatoes, cucumbers, okra and potatoes. On the board that serves as a counter, there are jars of sweets next to an old-fashioned scale. On the shelves of the back wall, wooden boxes and cardboard boxes with loose rice, sugar, beans or simple biscuits lie at the bottom. On top are tins of tomato paste, corned beef, jars of mayonnaise, cartons of tea and cheap cigarettes, shampoo, and plastic combs. If you lean over the counter a little, you will notice above all the canisters of US soya oil.

'Umm Ahmad, the "Mother of Ahmed", has a turnover of about a thousand Egyptian pounds (LE) on a good day, the equivalent of about 50 EUR. On average, it's more like 30 EUR, which comes to about 900 EUR for 30 days a month – she can't afford holidays. 15% of this, or 135 EUR, is her profit after deducting the rent for the location of her *kushk*. This is 45 EUR more than the salary of her husband, who works as a guard at a primary school for the equivalent of 90 EUR per month. The approximately 45 year old woman (she does not know her age that precisely, as her father never officially registered her birth) is a member of a *gam'ayah* – a saving group of 16 women, most of whom are small traders like her, although only half have a kiosk as nice as 'Umm Ahmad.

The trader joined the *gam'ayah* after the death of her mother, where she took her mother's place – and with it the obligation to act as cashier for the group. She keeps the cash book, in which the savings rules that the group has set for itself are entered or supplemented each time a new investment is made and which, with regard to the contributions, must be constantly adjusted to the galloping inflation in Egypt. On the 15th of each month, one woman receives the total income of the savings group, with each member taking her turn every 16 months. At last count, a weekly deposit of 40 pounds (about 2 EUR) per member amounts to 2,560 pounds or 128 EUR.

The last time, six months ago, 'Umm Ahmad used the money to have a new tin roof built for the kiosk. When it is her turn again, the amount due to her could form the basis for a refrigerator, which would then enable her to also sell soft drinks, especially to school children.

Box 3 continued: Umm Ahmad and her *Gam'ayah*

The *gam'ayah of* the small businesswomen always awards the total amount of money collected during the month. It also does not lend money, as some other savings groups in the same neighbourhood do, and does not itself borrow from professional or informal lenders. As 'Umm Ahmad reports, the members have to apply for a loan themselves. For them as a group, this was too risky. Not a single piastre (100 piastres = 1 LE) has ever been lost, and that is how it should stay.

(Source: own research documents)

The effects of the informal savings groups are considerable. They enable very poor members to hold back some money through the consistent deposit rules, if necessary also to "secure" it from their husbands, for example to be able to pay the school fees for a daughter at the beginning of the school year. For poor women, paying in even small amounts is of course often difficult, but it helps them to be able to fulfil an important wish for the family at least once in a while without having to depend on their husband. Women who are not extremely poor obtain leeway for investments in the household or for starting or expanding a small business through the group with comparatively higher deposits. What is important for the success of savings is the (self-chosen) peer pressure to pay the contributions as punctually as possible.

What is also not to be neglected is the social capital created by the group among poorer people. Through the regular meetings, the members know each other personally and often stand up for each other in emergency situations. This way, members can take money out of the account for illness or a funeral, or extend a loan for a few weeks in case of payment difficulties, even without consequences. The situational assessment and empathy of the group strongly distinguishes savings and credit mechanisms via farmer self-organization from formal or informal financial service providers. This gives the (women's) groups a very special significance for vulnerable sections of the population.

The literature, especially on *tontine*, less on *gam'ayah*, is relatively large and a bibliography on these "rotating savings and credit associations" was already published in 1995 (cf. Low 1995). It is noteworthy that DC was also involved with *tontines* and similar savings groups at an early stage. The idea was obviously prevalent from the beginning that the self-organized groups absolutely needed support and that they had to be brought together with "modern" formal financial service providers or that the groups themselves even had to be formalized (cf. Balkenhol / Gueye n.d. [c. 1990]; Kalala / Ouedraogo 2001, Henry 2003; Bruchhaus 2016, FISPLG 2020 and 2021;). In Upper Egypt, for example, the informal credit groups (*gam'ayāt*) became the VSLAs, the Village Saving and Loan Associations (cf. UN Women 2017).

Eva-Maria Bruchhaus (2016) certainly sees advantages if the formal financial sector also engages with *tontines* and supports their financial power for income-generating investments. However, she also sees the danger that commercial microfinance offers can lead to over-indebtedness of poor people. In addition, the savings of the *tontines* should not be lost in speculation, since their main purpose is to provide social and financial security to the members (ibid.).

6. Gender aspects of access to financial and insurance services in rural areas

In the research debate, two general trends in relation to women's access to financial services in particular become apparent. On the one hand, it is often criticized that access to formal credit is much more difficult for women than for men and that they therefore use credit much less frequently than men. On the other hand, many microfinance institutions in the 1980s and especially in the early 1990s virtually made a run on female clients because it was assumed that they had a higher repayment morality (cf. Mayoux 2000). It is not only in the Asian region that a large number of microfinance systems emerged – since the founding of the Grameen Bank (1983) until just a few years ago – which are primarily aimed at (groups of) women. However, this development, which was initially closely associated with poverty alleviation and women's empowerment, has since come under much criticism[38].

Various studies show that while women frequently borrow through MFIs, the loans are usually much smaller than the loans taken out by men (Fletschner / Kenney 2014 with a cross-sectional analysis, Bardasi et al. 2011 almost globally, Van Tran et al. 2018 on Vietnam). According to Bezboruah / Pillai (2014), an exception is when the MFI or cooperative employs a higher proportion of women in managerial positions. In this case, women certainly do utilize higher loans (ibid.).

Access to formal credit is more difficult for women than for men, despite these aspects listed above, for different reasons. For one thing, they often cannot offer the collateral that banks require for lending. Women are less likely to have land titles than men. Moreover, the house is often registered in the husband's name or, in the best case, in the names of both spouses, which would still require the husband's consent to take out a loan. Movable collateral such as bicycles, cars, agricultural implements or valuable household items is often not owned by women or is not recognized as collateral by banks (cf. Rajeev et al. 2011, Van Tran 2018). Added to this is their disproportionate financial exclusion. For example, 72% of men worldwide have access to a formal account, but only 65% of women (cf. Demirgüç-Kunt et al. 2018: 23).

Access is also hampered by the fact that women, especially in rural areas, are often illiterate or have only a few years of schooling, making it very difficult for them to learn about procedural rules and loan conditions and to fill out forms. Culturally determined restrictions such as the limitation of mobility and decision-making power are added (cf. Badri 2013, Rajeev et al. 2011).

In some societies, the fact that women are less likely than men to take out loans is also due to the fact that women see obstacles where none exist, at least technically, e.g. they consider themselves less creditworthy and generally have a greater reluctance to take out loans as well as a generally lower self-confidence than men. Girls (and young women) are often brought up not to have as much confidence in themselves as boys. In addition, their mobility and scope of action are restricted by cultural norms and by wanting to protect them from alleged and real dangers, which usually come from men (cf. Badri 2013, Chaudhuri et al. 2018, Gaesing 2001).

[38] For criticism of MFIs see e.g. Wichterich (2015) on India, D'Espallier et al. (2010) in a study of 70 countries worldwide and Mayoux (2002) on the feminization of debt.

Wichterich (2015) criticizes the fact that in many cases microcredit programmes have displaced the traditional savings and credit groups that were particularly popular among women. The main negative point is that these groups (*tontine* in Francophone West Africa, *susu* in Ghana and Liberia, *equb* in Ethiopia, and the *merry-go-round* in the wider East African region) were usually solidarity groups that supported each other and often worked together in areas such as agriculture. In the context of microcredit programmes, on the other hand, there is no strengthening of group solidarity, but rather a development of the group into a "mobilization and disciplining body" that serves the control and primarily the goals of the microfinance institution (see also Section 5.2).

The question of whether the increasing loan volumes, especially taken out in the context of women's groups, also lead to women's empowerment at the same time cannot be affirmed without limitation. Mayoux (2000) concludes in her study for the International Labour Organization (ILO) that this at least does not happen automatically. Although Ganle et al. (2015) report on numerous Asian studies that attest the empowerment of women through the use of microcredits, they show very clearly in their own empirical research in Ghana that the exact opposite happens there in some cases. The small loans to poor women in a rural district through World Vision, modelled on the Grameen Bank, were too small to allow women to make a meaningful investment in a profitable activity and were also given at a time of year when poor families were suffering from food shortages (Ganle et al. 2015). According to the report, the loans were primarily used to buy food and to cover the biggest budget gaps. 26.5% of the women also said that the husband took away her credit and only 16% said they had sole control over their credit (ibid.). Many women had great difficulty in repaying, were more vulnerable than before and lost status in their families and community. Nonetheless, they now had more say in domestic decisions – after all, it was through women that credit was developed as a new source of income for the household[39].

Badri (2013) reports for Sudan that men appropriate their wives' loans, sometimes by force. Balasubramanian (2012) also adds for the South Asian region that husbands often controlled the use of the loan or took the money all for themselves, but left the wife alone with the problem of repaying the loan. If the husbands did not already appropriate the credit themselves, this was often done later through the income from the income-generating activity that their wives had financed with it.

Kimengesi et al. (2020) summarize that where microcredits do not actively address patriarchal structures and gender relations, they tend to disadvantage women, and "disempowerment" of women is observed. They apparently have an increased workload, and suffer from the pressure to repay, and other family members reportedly use the loan instead of them.

Gender aspects are increasingly being included in insurance services. Women, girls and children in general are considered to be more affected by climate change than men. Women and children, for example, have a 14 times higher risk of dying as a result of a climate-related disaster than men. Therefore, when designing insurance services, the exact risks to which women and children are exposed should be examined in order to be able to respond adequately (cf. InsuResilience Global Partnership 2019a).

[39] The latter is also one result of the comprehensive BRACED evaluations, for example on the Burkina Faso country package (cf. Leavy et al. 2018, 2019). However, the very detailed country reports were not published individually.

Index-based insurance is increasingly being used to insure smallholder farmers against climate-related risks (see Chapter 3). The R4 Rural Resilience Initiative is such an approach and is being implemented by Oxfam America and the World Food Programme in Ethiopia, Kenya, Malawi, Zambia, Senegal and Zimbabwe. R4 consists of four programme parts:

(i) Risk reduction through various measures of sustainable resource management,
(ii) Risk transfer as an index-based insurance component,
(iii) Risk reserves (a savings and loan pool through which members can cover risks not included in the insurance, such as illness) and
(iv) A cautious perception of risk through savings deposits and borrowing via local financial cooperatives (Kühne 2019).

In 2019, 29,300 people, 35% of them women, participated in R4 in Ethiopia. The food security of women in particular was increased through R4. For the insurance component, contributions are paid to the Rural Savings and Credit Cooperatives present in each village. Very poor people who cannot pay the contribution can pay their contribution through their work performance in the communal resource protection measures (the innovative "insurance for work" approach) (Kühne 2019).

Greatrex et al. (2015) also attest that the R4 approach has a very positive impact on women in Kenya. In Marsabit County, for example, 40% of policyholders were women. This was attributed on the one hand, to the fact that they had a regular, albeit low, income from their trading income and could thus afford the contributions, and on the other hand, that they also wanted to avoid risk and were more likely to adopt innovations than men. In addition, the risk-reducing savings and loan component as well as the "insurance for work" approach have been tailored to women.

Another way to make insurance products more efficient is to adapt them to gender-specific circumstances. For example, women often grow different crops than men or own different types of livestock, which could be included in the indices used to measure the payment of an insurance benefit (Jarzabkowski et al. 2019).

Climate and catastrophe risk insurance includes benefits for drought, heat, flooding and inundation, frost damage, hurricanes, earthquakes and tsunamis. The members of the Bonn-based InsuResilience Global Partnership (see also Chapter 3), which include UNDP, the Asian Development Bank, various countries, the World Food Programme, GIZ and KfW, adopted a declaration on gender aspects in climate insurance in 2020 (see InsuResilience Global Partnership 2019b). This declaration recognizes the difference in climate impacts on men and women and formulates a gender action plan. One implementation measure, for example, is the promotion and funding of long-term training for female managers in the insurance sector by organizations such as Women's World Banking[40].

[40] For example, a high-ranking female staff member of the Ministry of Finance in Madagascar was trained, who also works with the BMZ-funded Adaptation of Agricultural Value Chains to Climate Change (PrAda) project and was instrumental in formulating an inclusive insurance strategy.

Interim conclusion

- Despite a run by MFIs on women because of their proven good repayment record, access to credit is generally difficult for women because they have few possessions accepted as collateral, are less mobile than men, and often have little education, making it difficult for them to access the bureaucracy of credit institutions.
- Accordingly, financial institutions that offer decentralized, customer-friendly and bureaucracy-free services are of interest to women.
- Although women are the borrowers, men often control the money received. Here it is necessary to examine to what extent this “misuse” can be minimized or even completely excluded.
- Traditional savings and credit groups promote social cohesion and provide security for women. Therefore, these groups can also be used by DC as an advisory channel on financial issues.
- Insurance companies are required to address the special needs and risk areas of women in their offers, e.g. to also insure crops grown and animals kept by women and not only focus on large livestock and cash crops, for example. However, the question arises whether and in which cases women show sufficient interest in the concept of risk insurance that they would be willing to pay premiums for it.

7. Agricultural financing in development cooperation

7.1 Financial inclusion

Financial inclusion (FI) describes the access, availability and use of financial services such as savings, credit, insurance and money transfers. Access to formal financial services provides people with safe ways to build up savings, secures cheaper money transfers, and reduces the need to borrow from informal moneylenders with their often extreme interest charges. Beyond the household level, stronger FI promises, among other things, the strengthening of small businesses and microbusinesses, economic growth, employment-promoting effects and lower inequalities as well as improved living conditions for the poor segments of the population (cf. Bozkurt et al. 2018). Based on these development policy assumptions, FI has taken a central place in international cooperation as well as national development plans in recent years, opening the doors to a wide range of actors through the enormous breadth of the topic. Digitization of financial services for financial inclusion already plays an important role in this. In addition to the classic stakeholders of politics and the microfinance sector, cooperatives and savings groups, mobile phone providers, FinTechs[41] as well as international financial institutions are now taking on a central role (cf. Mader 2018).

FI is also reflected in the SDGs. SDG 1.4 envisages the FI of "all adults" by 2030. With the Universal Financial Access 2020 Strategy, the World Bank is focusing its activities in the area of financial inclusion on 25 countries in which 73% of those people live who do not yet have access to formal financial services or do not use them. The World Bank estimates that the number of people worldwide who can gain access to financial services through improved regulatory frameworks is 1.3 out of the 1.7 billion people who are currently excluded from them. The assumption is that FI has a decisive poverty-reducing effect, as people can save securely for the first time and take advantage of insurance services. Trade and productive business are also promoted through access to credit, and household risks can be better cushioned (cf. World Bank Group 2021).

Since the beginning of these development activities, the World Bank says it has been able to provide up to one billion people with access to a bank account through various mechanisms. Although this means that their own target of universal access by 2020 has been missed, a clearly positive trend in the FI can be seen, which will in all likelihood continue due to the digitalisation already described. Bozkurt et al. confirm this trend by examining the spatial dimensions of FI. The countries with the lowest current Financial Inclusion Index (a combination of access and use of financial services) are also the countries with the highest growth rates in FI. In general, decreasing inequalities in FI can also be observed globally (cf. Bozkurt et al. 2018), albeit on very uneven terms. Loans, but also fees, are relatively much lower for those who move higher sums.

The question of when FI is reached remains to be discussed. The mere possession of a bank account, which is only used sporadically, describes only a very low involvement of the participants and very likely therefore only a very low benefit within the financial system. If one applies more qualitative standards, it can be assumed that, especially in low-income countries, FI has not yet reached large parts of the population and will not (yet) reach them

[41] Thomas-Frank Dapp (2014) describes FinTechs as "technology-driven companies that digitally and dynamically enter the market for easily standardized financial products and services in order to gain customers and market share".

even with access to a formal bank account. Against this background, the think tank Centre for Financial Inclusion proposes the following definition of financial inclusion:

> Financial inclusion is a state in which everyone who can use them has access to a range of quality financial services at affordable prices, with convenience, dignity, and consumer protection, delivered by a range of providers in a stable, competitive market to financially capable clients (Kelly / Rhyne 2015: 7).

This definition is in no way intended to make past successes appear smaller than they are. It serves as an indication that access to a bank account is only the beginning and not the end goal of FI. This is particularly true for smallholder farmers because of the very specific requirements for financial services.

As already described in Chapter 2, the potential of FI in the field of poverty reduction must not be overestimated. So far, only savings mechanisms for low-income households have been proven to reduce poverty (Duvendack / Mader 2020).

7.2 Microfinance and graduation approaches

7.2.1 Graduation, loans and more

Microfinance (MF) also plays an important role, particularly in the context of the "graduation approach", with most commentators citing the need for intensive monitoring of borrowers as important for success, irrespective of their differing assessments of actual impacts and their sustainability (see, among others, Banerjee et al. 2015, Chowdhury 2009, Kidd / Bailey-Athias 2017, Osmani 2014, PEI 2018, UN Women 2020).

"Graduation" describes a process whereby people receive support in the form of physical and operational assets, cash transfers (grants), food assistance, technical and business skills training and the like, in order to be able to free themselves from dependence on this assistance in the long term and leave the programme (cf. Devereux / Sabates-Wheeler 2015)[42]. The aims and objectives of the graduation strategy, which relies heavily on MF, are explained, for example, by the NGO BRAC, to which the approach can essentially be attributed, as follows (2020):

> "The graduation strategy and / or approach […] is an integrated and sequenced set of interventions that aims to enable extreme and ultra-poor[43] households and individuals to achieve 'key milestones' towards sustainable livelihoods and socioeconomic resilience in order to progress along pathways out of extreme poverty"[44].

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[42] Cf. the core elements of graduation according to Banerjee et al. (2015: 4): 1. Productive asset transfer: a one-time transfer of a productive asset; 2. Consumption support: a regular transfer of food or cash for a few months to about a year; 3. Technical skills training on managing the particular productive assets; 4. High-frequency home visits; 5. Savings: access to a savings account and in some instances a deposit collection service and/or mandatory savings; 6. Some health education, basic health services, and/or life-skills training.

[43] Here, it is defined more in terms of income and not in terms of the problem of not having a labour force in a family and thus not having active employment opportunities. Therefore, graduation approaches aimed at creating or expanding sources of income are not suitable for ultra-poor people in the latter category. For these, only unconditional cash transfers in the sense of social welfare payments come into question (cf. Bliss 2020). For the definition of ultra-poor, see Section 2.2.1.

[44] See BRAC 2021.

Citing data from BRAC, Apel et al. assume that between 2002 and 2012, about 95% of all households that participated in a BRAC graduation programme (about 1.4 million) were able to lift themselves out of ultra-poverty within six years (2016: 9).

Positive effects of the graduation approach are hardly disputed in the very extensive literature on the subject, but many authors, including the authors of this study, question the actual extent of the effects: Can ultra-poor and extremely poor people really be brought sustainably above the poverty line (1.90 USD) by the current graduation measures? In connection with graduation, it is particularly important to also present the changes in absolute income figures, as well as to evaluate the effects on the basis of further criteria, for example in the sense of the capability approach by Amartya Sen (2017: 258ff). If the effects are formulated relatively in percentages, as is the case with an example provided by UN Women ("[...] between 2002 and 2008, among 'Targeting the Ultra-Poor' participants, income increased 72 per cent on average, whereas among non-participants, the increase was only 29 per cent", 2020: 71) the changes seem respectable. Even if calculated over six to seven years, it is only slightly more than 10% per year, these are significantly higher growth rates than expected general income increases in the reference countries.

However, if the income of ultra-poor people is considered, which is usually below half the values for the international poverty line or the (often even lower) national poverty line, then it is very often not possible to speak of a way out of extreme poverty. Those who only have the equivalent of 0.50 USD a day would only have 0.86 USD after six years, even with the high rates of increase mentioned above, and would thus still be far from the income threshold of 1.25 USD that applied for extreme poverty from 2008 to 2015. In the meantime, this limit was raised to 1.90 USD in 2015, as is well known, so it is questionable whether the "extreme", let alone "simple" poverty line, can ever be exceeded or that people can get out of the area of acute vulnerability with such high annual rates of increase. In the report, UN Women itself also expresses doubts with respect to these figures.[45] The funds granted within the framework of so-called graduation approaches or the support granted in the overall package of graduation approaches are therefore usually not sufficient for this group to ever be able to overcome the threshold of extreme poverty[46].

The core problem with graduation approaches seems to be that non-repayable one-off payments to the poor as well as microcredits are supposed to lead to the formation of productive assets in both cases, but these are often too small to help build up an economic livelihood[47]. Therefore, they may (temporarily) contribute to a slight improvement in living conditions, but do not create a sustainable income base at a level that allows the beneficiaries to definitively overcome the poverty line.

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[45] It is noteworthy that there is the international threshold for "extreme poverty" (currently 1.90 USD) but no values for "simple poverty". Under some circumstances, the range that the World Bank maintains for middle-income countries (3.20 to 5.50 USD) would be an appropriate value for the monetary representation of poverty. For acute vulnerability, twice the value of the extreme poverty line could be assumed, i.e. 3.80 USD, although limits of vulnerability – measured at least by the consequences of climate change – can hardly be quantified.

[46] One of the co-authors of this study attended the 2016 ADB-CPAN workshop in Manila, where the poverty impacts of the BRAC Ultra Poor Programme were discussed very controversially. Thus, although the programme was certified to have increased the income of the borrowers by about 20%, this did not allow the families to get above the poverty line.

[47] See last footnote.

If the effects of MF already remain limited in the context of graduation approaches, where intensive counselling and accompaniment of the borrowers is the rule, the question of the results of MF in the context of poverty reduction must be asked fundamentally, since the majority of these loans are accompanied by significantly less technical support, and many not at all.

Nevertheless, it remains to be said that in cases where there is very close monitoring of the borrowers and it is also maintained in the long term, sustainable financial inclusion can be achieved. In the broadest sense, social enterprise approaches and rural microfinance models, for example, can be located in the area of graduation. By providing very close support to borrowers and disbursing the loan through productive assets, such as operating equipment, very high repayment rates can be achieved for comparably small loan amounts. In agriculture in particular, these models can be used to grant loans to households that cannot be serviced by private sector actors. It should be noted, however, that organizations in this field need long start-up phases funded by external donors to scale up, or are permanently dependent on subsidization.

7.2.2 Microcredits in focus

There is little evidence that microcredit generally harms borrowers as was feared by some critics, but there is also little evidence that microcredit transforms poor households into prosperous entrepreneurs (Rachael Meager 2019).

The amount of literature on private sector microcredits, which mainly focuses on the lower segment of microcredits (less than USD 50 to less than USD 500), is even larger than on graduation – and again opinions range from "unreservedly positive" to "absolutely ineffective" or even "harmful".

A study by S.R. Osmani attributes positive effects to microcredits in Bangladesh, where they have led one in ten borrowers out of poverty and one in five out of extreme poverty (2014). Sultan / Masih (2016) make similar comments with respect to Bangladesh. They even see MF as one of the most important foundations for GNI growth in the country. Jafar et al. – again based on analyses of Bangladesh – also come to a consistently positive conclusion regarding the effects of MF on poverty (2017).

A meta-study commissioned by Danida and presented in 2009 concluded that some studies had shown an increase in consumption and income through MF, but that others could not confirm this, and that caution was advisable when expecting too much. Also, given the fact that many microcredits are dependent on donor subsidies, even clear evidence of impact would not provide sufficient reasons to continue financial support (Kovsted et al. 2009).

From a critical perspective, on the other hand, Anis Chowdhury puts the poverty effects of MF into perspective, although he explicitly refers to Yunus' statement in 2003 that these loans cannot work miracles and cannot eliminate poverty in one fell swoop (2009: 2). Jason Hickel of the *Department of Anthropology* at the *London School of Economics and Political Science* (LSE) is more explicit, stating unequivocally that "microfinance usually ends up making poverty worse", and:

> "Forget about colonialism, structural adjustment, austerity, financial crises, land grabs, tax evasion, and climate change. Forget about challenging the concentration of power and wealth. And, above all, forget about collective mobilization. Bankers shall be our new heroes and debt our salvation. Debt, incidentally, is a great way to keep people docile" (Hickel 2015).

The fact that MF cannot offer a solution to ultra-poor populations is clear from Mecha (2017): "It is also coming out clear that the poorest of the poor are not benefiting because the majority of these people are not able to repay their loans making them even lose the little they had". Accordingly, the demand that "it is suggested that governments may need to revise the structure and strategy of microfinance to be more hardcore poor oriented" (Subramaniam et al. 2021) does not appear to be constructive.

It is characteristic of the debate on the impact of MF on poverty that different or even contradictory conclusions are drawn from individual empirical studies. This is how a UNU-WIDER research brief summarizes the results of an analysis by Maîtrot / Niño-Zarazúa (2017):

> "Microfinance evaluations reveal a positive impact on per capita income, non-land asset value and poverty incidence. Across countries and methodologies, microfinance is most likely to have a short-term positive effect; regionally, the most positive impacts are seen in Africa. Women tend to benefit the most from microfinance. Better off households tend to benefit more from microfinance initiatives than poorer ones" (UNU-WIDER n.d.).

In contrast, the authors of the original study come to a much more sobering conclusion in the summary of their research results:

> "Our results indicate that, at best, microfinance induces short-term dynamism in the financial life of the poor; however, we do not find compelling evidence that this dynamism leads to increases in income, consumption, human capital and assets, and, ultimately, a reduction in poverty" (Maîtrot / Niño-Zarazúa 2017).

As a consequence of the dispute about the effects of MF, the INEF research program will always investigate to what extent successful examples of agricultural financing for smallholder farmers are primarily based on the financing itself. It will examine, for instance, to what extent they are offered as part of a support package (e.g. financial literacy) or combined with savings mechanisms. It will seek to identify what, if any, are other specific conditions for a successful approach.

7.3 Strengthening rural financial service providers

In order to reach further population groups and achieve greater financial inclusion in countries of the Global South, a number of state and private sector actors are focusing on strengthening banks and MFIs that are also active in rural areas. The central impetus here is the assumption that private sector actors, in contrast to state actors, are better positioned for the sustainable and effective establishment of services. This follows classic private-public partnership (PPP) models, where core competencies of the private sector are used. Since the establishment of private sector financial services, especially in rural areas of low-income countries, is only profitable to a limited extent at the beginning, these actors receive technical and financial support from both donors and the state. A central building block in the current market-oriented strategy for the sustainable establishment of MFIs that also reach poorer population groups is the establishment of a regulatory framework that promotes private sector activities.

Strengthening rural MFIs can only be successful if coherent measures are initiated at the national level by the relevant ministries and central banks and financial supervisors. German DC reacted to this situation as early as the 1990s, when it was recognized that a narrow target group-oriented financial policy, e.g. via loans to specific groups, would not achieve sustainable effects unless the entire financial system was strengthened and appropriate framework conditions were introduced (cf. BMZ 2016).

The role of DC in strengthening rural financial service providers therefore begins at the national, public level in cooperation with the respective national governments. The establishment of MFIs, supervisory authorities and the creation of an appropriate regulatory framework and consumer protection instruments will lay the foundation for an inclusive financial system with an inclusive rural financial market (cf. BMZ 2016, IFAD 2009). The private sector orientation is brought into a position to provide independent target group-oriented services in the long term with the help of PPPs between various donor organizations and existing MFIs or banks. In addition, the establishment of new MFIs or the "transformation of NGOs into regulated MFIs" (BMZ 2016) is also supported. In doing so, the promotion goes beyond the credit system (taking into account the experiences from the crisis in the microcredit sector) and also focuses on savings, money transfers and insurance (cf. ibid. 2016).

Subsidizing rural MFIs is a controversial means of establishing financial services for poorer sections of the population. They are used to promote the difficult and often unprofitable entry of banks and MFIs into rural areas, especially in regions where private sector actors have not seen a market so far: "If achieving success was possible with standard banking procedures and products, there would be no need for microfinance" (Cull et al. 2018: 242). The decisive question in subsidizing private sector actors in the field of rural financial services is whether they – after subsidization in the early phase of their establishment – can continue the business model sustainably, i.e. at least in a cost-covering way, from a certain point onwards and still fulfil basic development policy requirements, such as a poverty orientation of the services.

The more difficult economic conditions for financial service providers in rural areas described in Chapter 2 remain even after the initial establishment of business activities. While ongoing subsidies can ensure the maintenance of supply, they require regular evaluation of costs and benefits (cf. Cull et al. 2018), as well as an assessment of whether subsidized financial services are the most appropriate tool for poverty reduction in smallholder agriculture from a development perspective. In the same way as with agricultural insurance (or including the latter), one legitimate development policy instrument may be the permanent subsidization of rural financial services, e.g. by strengthening the equity base as shareholders or financiers. However, this should encourage donor organizations all the more to monitor the socially acceptable orientation of the respective business practices through detailed monitoring.

7.4 Value chain promotion and contract farming

The international dismantling of trade restrictions holds economic potential for agriculture in the Global South. In particular, classic agricultural export goods can improve the balance of trade and generate profits for the market actors involved. However, it is precisely value chains with high profit opportunities in which weaker actors are easily displaced (cf. AfDB 2013). In practice, this often affects microproducers and small producers. With greater integration into the world market, the demands on production standards and quality also increase. Targeted value chain promotion by external actors therefore serves to strengthen the market position of weaker actors. It also improves the participation of broad segments of the population. In the case of promotion of export-oriented value chains, it also does so by supporting compliance with international regulations or rules (ibid.).

Value chain financing describes the flow of funds into or within a value chain. The funds can fulfil various objectives such as overcoming capital bottlenecks, securing production and sales as well as increasing efficiency (cf. Miller 2012). The identification of all financing needs or existing financing bottlenecks within the chain is crucial in the area of value chain

promotion. Adapted financial services and a reduction in transaction costs can reduce risks and increase the efficiency of the entire chain (ibid.).

Value chain financing in the downstream sector (i.e. transport, processing, trade, etc.) is less affected than the upstream sector of production by the difficulties of agricultural financing already described (cf. Gouri / Mahajan 2017). From the perspective of the financial institutions, the sector is more comparable to the dominant business model of urban production support.

The links within a value chain are different in nature in terms of the requirements associated with them, so with regard to financial services, there are inevitably different needs. Classic value chains, in which producers sell their production on the free market, are more difficult to operate than formalized contract farming. This is about value chain promotion within the framework of semi-formal or formal relationships between buyers and producers, which offer more opportunities for sustainable agricultural financing and are therefore increasingly being focused on in DC today.

The organization of production and networking with other actors in value chains is organized through different channels in contract farming. In centralized models, processing companies procure their products via a network of contractually bound (micro)company suppliers. In so-called nucleus models, the buying company sometimes also takes on the role of the producer, but mainly serves as a centre for the distribution of operating equipment or the provision of advisory services for "associated" companies. Other models include more complex relationships with intermediaries and informal as well as semi-formal contractual arrangements (cf. Bijman 2008).

The improvement of these different models can be strengthened on the part of the producers, e.g. by founding farmers' groups or joining cooperatives (cf. Herold 2020), in order to open up new markets and improve market power in the value chain. Processors and traders can also strengthen the chain "from above" by reinforcing informal or formalized relationships with producers. In regions where these relationships do not emerge through market mechanisms because the transaction costs are too high or where there are power imbalances between the groups of actors, intermediaries can come in to mitigate these asymmetries, e.g. NGOs, (decentralized) authorities or DC organizations (cf. Miller 2012).

This gap is increasingly being filled by social enterprises. The Nigerian social enterprise *Babban Gona*, for example, is one of the largest maize producers in Africa with the help of its supplier network (cf. Global Innovation Fund n.d.). In theory, external development policy intervention should aim at strengthening the role of producers and/or the greater involvement of micro, small and medium-sized enterprises in order to be able to distribute value added more evenly and tie profits locally and regionally. In theory, this should in turn be a key to sustainable rural regional development and trigger important employment-promoting effects for rural areas. The models of value chain promotion differ in their approach, but all contain certain commonalities through the focus on the final sales market and the recognition of the relevance of all actors involved for an efficient chain and corresponding value creation in each link of the chain (cf. AfDB 2013).

Actors in a value chain with existing relationships for the sale or purchase of products represent a much lower risk for financial service providers than producers without a secure sales market. Contract farming, in particular, allows for a certain predictability of sales and thus increases creditworthiness. Processors and traders in agricultural value chains can also

support production by providing financing, which is somewhat the norm in the cotton sector in some countries[48].

These businesses and traders can in turn refinance themselves. While a bank or MFI may refuse to deal directly with growers for reasons of risk or profit, it may be willing to provide a loan to the buying farm, which will pass it on to growers in the form of contract farming, either through loans or the provision of operating equipment. While the bank's risk is not necessarily reduced, in the broadest sense it transfers the assessment of creditworthiness to the borrowers, who can use personal knowledge of the farm businesses gained through previous business relationships (cf. Shwedel 2006).

So far, a distinction has been made between two models: the buying company can either act as guarantor for a direct loan from the bank and thus take over the loan security or pass on a loan from the bank directly to the producers. In the case of the second variant, i.e. lending by the purchasing company, the latter has the option of setting the loan conditions, in particular fees and interest rates, for the producers. In this context, the purchasing company can weigh up whether more favourable loan conditions will create corresponding production incentives and improve its own overall balance sheet through higher deliveries (cf. Yi et al. 2021). This means that the financing itself no longer serves direct profit interests, but only the strengthening of the supplying actors (Miller / Jones 2010).

However, these incentives also lead to dependencies and can tie smaller farms to stronger value chain actors and trigger vulnerabilities. The move away from integrated agricultural practices towards input-intensive mono-production, or at least a very strong focus on a single agricultural product, carries risks. Especially for farms with a large subsistence share in production, dependence on price fluctuations for a single product without corresponding hedging through other activities is dangerous. This is where the burden of repaying operating equipment or loans drawn before the season within the value chain comes into play particularly in cases of crop failure or low yields.

However, these risks also apply to the buying companies. Cooperation with small / micro producers with few resources also requires a high level of upfront investment to enable them to produce in line with quantity and quality requirements. Accordingly, classic value chain actors tend to favour medium-sized and larger farms for contract farming (cf. Mcmichael 2013), especially since specialization (= narrowing) of agricultural production requires a certain degree of risk-bearing capacity. Therefore, the question arises to what extent the inclusion of micro-enterprises in certain value chains such as the cultivation of cashew nuts, tea, mangoes, etc. makes sense from a development perspective. Both the risk and the barriers to entry are lower in the area of staple foods, which are grown by micro-producers anyway[49].

For development policy interventions, the consideration of existing structures in the area of value creation is central. The establishment of new value chains can lead to parallel structures with potentially high negative impacts on existing business relationships of the actors (cf. AfDB 2013). Even in the case of previously inefficient chains, it is therefore advisable

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[48] Here, for example, it is a private cotton ginning factory or a state-owned company with numerous such plants (e.g. Cotonchad in Chad) that mainly advances the inputs to the smallholder farmers and later deducts their costs from the purchase price.

[49] See also the previous publications in the AVE series: AVE Study 14/2019 (Bliss, Frank (2019): Zum Beispiel Soja. Eine erfolgreiche Wertschöpfungskette im westafrikanischen Benin) and AVE Study 23/2020 (Herold, Jana (2020): Agricultural value chains in development cooperation. Analyses and Recommendations).

to optimize them instead of neglecting existing business relationships, which are often based on trust, by focusing on “innovations” (ibid.).

In general, it should be examined whether the financing of agricultural production always represents a central hurdle for value chains, or whether an improvement in infrastructure, more secured access to land, support for the self-organization of producers and/or the promotion of better cooperation between groups of actors could strengthen value chains in a more sustainable and risk-free way (cf. also Herold 2020).

Interim conclusion

- In the area of financial inclusion, considerable progress has been made in recent years driven in particular by advancing digitalisation. However, the poverty-reducing effect should not be overestimated as long as digital accounts among poorer population groups are mostly used for money transfers and financial inclusion thus takes place rather superficially.
- In the context of MF, graduation approaches are usually able to improve the living conditions of extremely poor population groups, but despite a significant increase in disposable income, they often do not sustainably lead to them crossing the extreme poverty line (USD 1.90 p.c./p.a.).
- The effects of MF are generally controversial with many authors agreeing that for poor groups short-term effects are greater than long-term effects and that extreme or ultra-poor people are not reached by MF. Moreover, those who benefit most from MF are those who already belong to the (relatively speaking) higher income strata within the poor population.
- In the area of value chain promotion, resource-rich households also benefit from value chain financing. Here it is particularly important to strengthen farmer structures in order to increase their market power within the value chain.

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