



GTZ Rural Finance Program

Facts and figures - GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*):

German public implementing agency for technical assistance in developing countries and countries in transition.

Current project portfolio: 2,700 projects (most commissioned by the German Federal Ministry for Economic Co-operation and Development, BMZ)

10,000 employees in 130 countries

Turnover: 860 million EUR

1. Rural Finance in GTZ: Approach and lessons learned

More than ten years of activities in the area of microfinance have markedly improved financial services to micro and small enterprises, including traders, especially in urban areas. Microfinance has not been as successful, however, in providing financial services to small-scale farmers and rural enterprises. Moreover, following the closure of a significant number of agricultural development banks, there is evidence that the availability of deposit and loan services in rural areas has actually declined in many countries.

GTZ recognizes that rural and agricultural finance differs from microfinance for the following reasons:

- Different loan terms

Loan terms are different. Agricultural producers tend to require medium- and long-term loans, rather than short-term ones.

- Increased risk

Agricultural production is generally much riskier than urban trade or services – the main economic activities of clients of microfinance institutions (MFIs). Risk diversification requirements for rural and agricultural finance institutions, and their resultant portfolio at risk, may thus be higher than for MFIs.

- Transaction costs

Transaction costs for financial services in rural areas are higher than in urban areas due to the generally poor state of rural infrastructure.

GTZ addresses these issues by assisting countries in developing a consistent rural finance strategy and by providing technical assistance to financial institutions working in rural areas.

GTZ shares the widely accepted notion of "credit *and* savings" in rural finance, both for agricultural and non-agricultural production. Rural finance must be more than just agricultural credit. In order to provide sustainable services, financial institutions in rural areas must mobilize deposits and should provide credit for activities other than agricultural production. Poor people in rural areas in numerous countries have proved their ability to save and, in many cases, that they prefer savings products rather than debt.

Agricultural production remains the most prominent economic activity in rural areas, which makes rural finance more difficult and complex than urban microfinance. In order to provide long-term loans for agriculture, lending institutions need sophisticated asset and liability management skills, which depend on effective management information systems and computerized operations. The interest rate and liquidity risks of long-term loans must be analysed on an individual basis. Appropriate funding sources must also



and AFRACA, GTZ has successfully developed and disseminated the concept of linkage banking. Today, the idea of linking the formal banking sector with informal client groups or financial institutions in order to deepen the rural financial market has been adopted and further developed in a number of Asian and African countries.

In collaboration with other agencies, such as the International Fund for Agricultural Development (IFAD) and FAO, GTZ explores ways to restructure state-owned agricultural banks. These play a crucial role in providing long-term finance for agricultural investments and rural infrastructure in several countries. GTZ assists agricultural banks to improve their outreach and to develop new financial products for rural enterprises. GTZ currently assists the Bank for Agriculture and Agricultural Cooperatives in Thailand (especially with savings and non-agricultural loan products in rural areas), the Agricultural Bank of Mongolia, NABARD in India and the Agricultural Banks of Nepal and Mauritania. The joint FAO-GTZ Internet-based inventory “*AgriBank-Stat*” provides an overview about the main rural-based financial intermediaries worldwide.

3. GTZ section responsible for implementing the rural finance strategy:

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4. Funding and regional coverage

Level of annual funding for TA in rural finance provided by the German Federal Government:
Approximately 14,000,000 EUR
Current rural finance program portfolio: 20 projects world-wide, mainly in Africa and Asia

5. Major lessons learned during project implementation:

Many rural financial institutions have already adopted the financial market paradigm and several microfinance technologies. However, simultaneously some of them have shifted away from agricultural finance (e.g. the Agricultural Bank of Mongolia). Sustainability has been achieved, but the spectrum of financial products available for productive use has been reduced. The most prominent question for GTZ in rural finance is now how to strengthen sustainable outreach in rural areas and how to develop financial services beyond microfinance and trader finance.

6. Three most important things to avoid:

The ministry of agriculture should not be relied upon only as counterpart for your activities. In many cases central banks are the more appropriate and useful players in rural finance.

Designing isolated credit programs should be avoided. If possible, do not work exclusively with one financial institution, but open technical assistance towards financial sector development service providers, such as training institutions, credit bureaus, banking associations and apex bodies which have more leverage and are able to provide services to all the relevant rural financial institutions.

