



**Paving the Way Forward for Rural Finance**  
*An International Conference on Best Practices*

# **Buyer and Supplier Credit to Farmers: Do Donors have a role to Play?**

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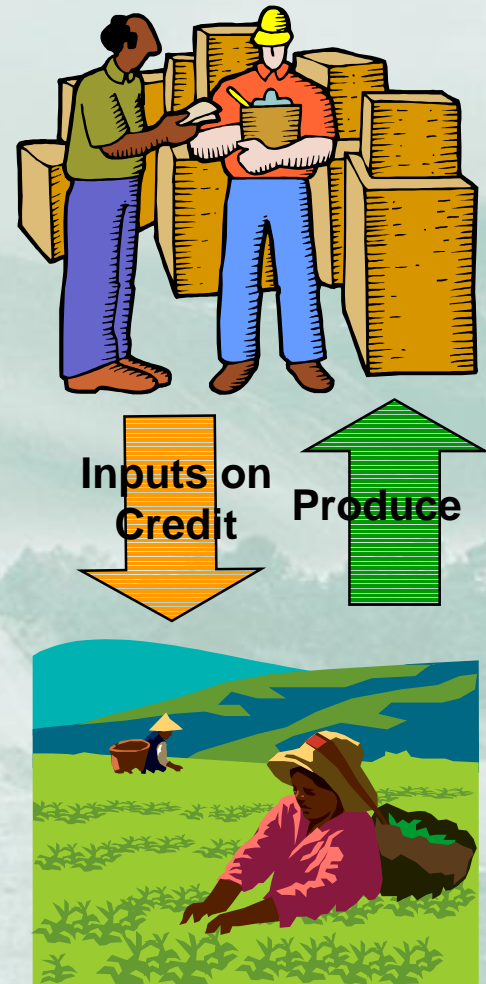
## **Buyer and Supplier Credit: Key Characteristics**

- **Primary source of credit**
- **Addresses agricultural finance constraints**
- **Credit facilitates supply & purchase transactions**
- **Credit with embedded BDS**
- **Seasonal credit and short-term advances**
- **Interest rates not always applied**
- **Delinquency & default**



## **Buyer and Supplier Credit: Principal Mechanisms**

- **Contract Farming and Outgrower Schemes**
  - Buyer provides inputs on credit, linked to purchase
- **Trader Credit**
  - Inputs on credit
  - Advances during growing season





## **Might there be a role for Donors?**

- **Yes, if poor have no or unfavorable access**
- **Buyer and supplier credit has limitations:**
  - **Side-selling**
  - **Lack of transparency**
  - **Narrow product range**
  - **Limited potential for scale-up**
  - **Access for smaller and more marginal farmers**
  - **Supermarket involvement raising quality and volume standards**
- **But potential market distortion**



## **Programming and Policy Options:**

- **Improve access for small farmers**
- **Promote Financial Institution involvement:**
  - **More transparent and wider product range**
  - **Increased competition**
  - **Increased liquidity for buyers and suppliers**
  - **But challenges include:**
    - **Difficult to ‘unbundle’ credit**
    - **Still need to overcome agricultural finance constraints**
    - **Buyers and suppliers use credit to secure supply**



## **Programming and Policy Options:**

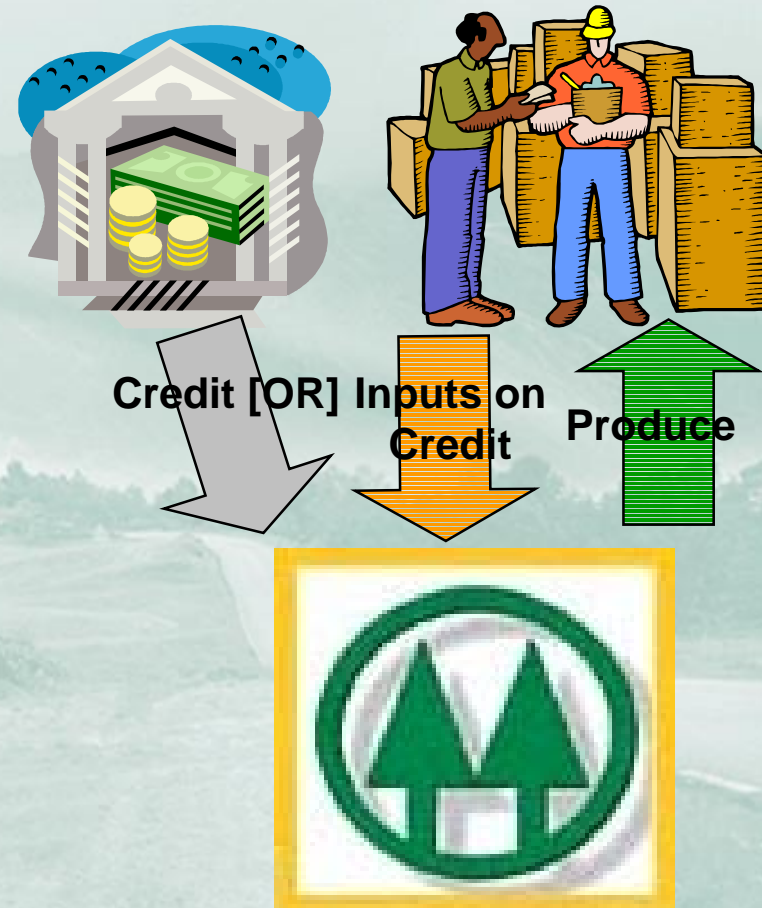
**For increasing access and FI involvement:**

- **Support to small farmer associations**
- **Intermediary linkages**
- **Buyer and supplier finance companies**
  
- **Most effective and least market-distorting:**  
**Measures to create enabling environment for rural financial services**



## **Small Farmer Associations**

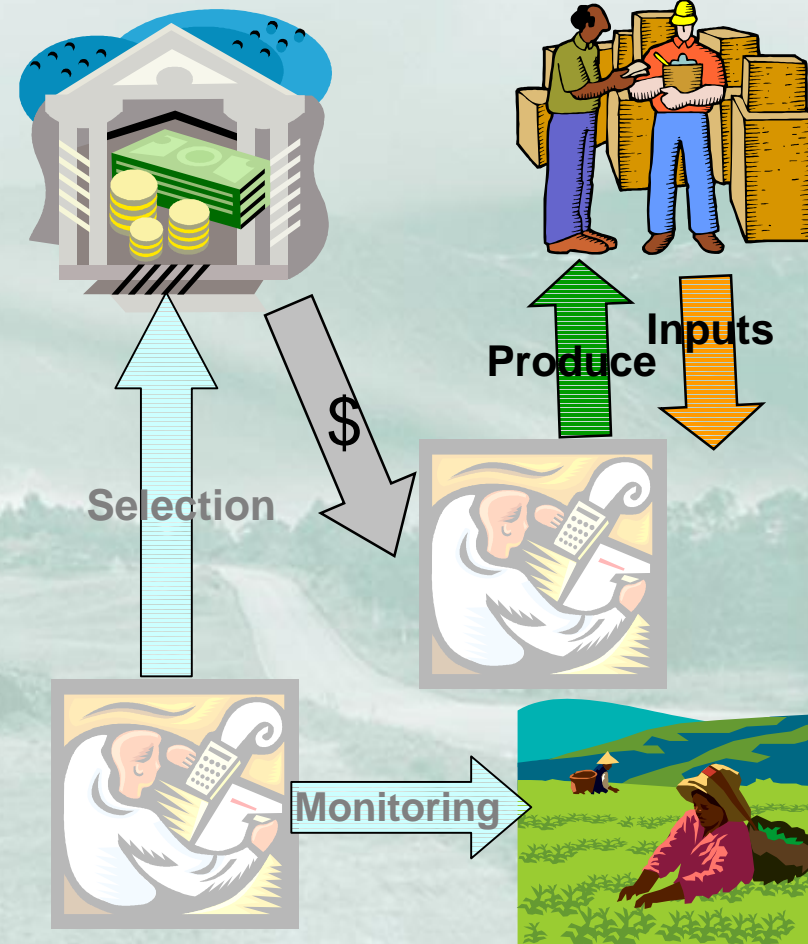
- Donor support to specialized agencies that promote associations
- Associations can improve attractiveness of small farmers





## Intermediary Linkages

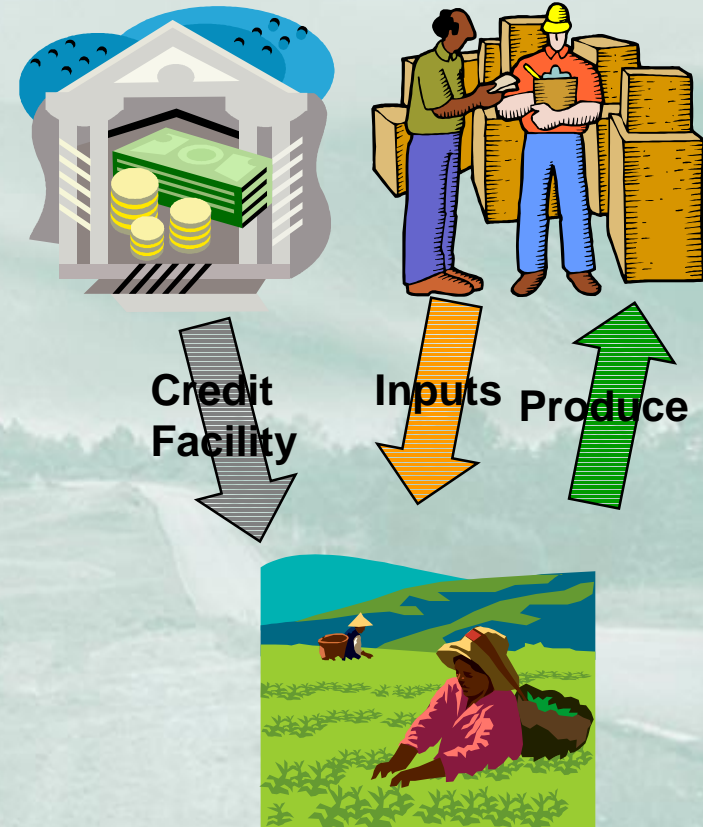
- **FIs can use intermediaries to lower lending risk**
  - Loan service agents for FIs, that also link farmers to market chain
  - Brokers for small farmers
  - Also to develop links to embedded service providers
- **Temporary donor support to stimulate intermediary linkages**





## **Buyer and Supplier Finance Companies**

- **Processors or wholesalers set-up finance companies**
- **Better-placed to increase efficiency and scale**





## **How to Avoid Market Distortion**

- **Donor support should be timebound, transparent, and open to >1 intermediary**
- **If agency external to product-market, use short-term contract to develop embedded services**
- **Address constraints to market access, don't subsidize services**
- **Interventions that increase not decrease competition**
- **Focus on the enabling environment**



## **Improving the Enabling Environment**

- **Eliminate interest rate subsidies**
- **Streamlined, affordable collateral registration**
- **Credit bureau that includes diverse credit providers**
- **Strengthen contractual mechanisms**
- **Representation and negotiation position for small farmers**
- **Instruments to reduce default risk**
- **Transport and communications infrastructure**





## **Conclusions**

- **Take buyer & supplier credit into account in project design**
- **Potential role for donors in improving access**
- **Flexible, opportunistic donor support, with specialized capacity**
- **Improved enabling environment most effective**