

Building Access to Finance for Female and Male Farmers

ALLIANCES CAUCASUS PROGRAMME

MAY 2017



Introduction

In 2011, the ALCP programme linked its *access to finance* output with its access to nutrition output i.e. the *hay making machinery equipment needed by SSLP's to remove a key nutritional constraint to dairy and meat production*. High costs and limited or expensive credit meant difficulties in replacing outdated machinery inputs which performed poor and costly hay making services for farmers. Many farmers could not take loans for purchasing livestock, farm inputs, machinery and land due to the high interest rates. Banks and MFIs required provision of property as collateral, because assets and real estate owned by the farmers were mostly impaired and poor.

The story of microfinance in Georgia began after the collapse of the Soviet Union. Small institutions began operating, with the financial support from the Western aid organizations, in order to issue microloans to internally displaced people, micro-entrepreneurs and the rural population for rebuilding the economy.

Gender: The majority of agro loans used to go to men. Rural women were getting loans only with their husbands' assistance, as rural women did not own property for collateral and they were not visible as the main milk suppliers who controlled the money from selling the milk, therefore they didn't have trust from the financial institutions in covering their loans.

Intervention Timeline

In 2012 the programme facilitated a pilot with Agro Leasing Group a Tbilisi based entity offering higher level leasing to purchase on urban machinery. The programme drew attention to the market for agricultural implements constrained by access to finance. The programme co-invested 25% of the machinery and a leasing product was offered through a regionally based machinery outlet. The leasing did not require additional collateral and the repayment structure was more flexible than the loans of banks and MFIs, additional benefits were related to tax advantages. The interest rate was also less than banks and MFIs were offering. The intervention was however unsuccessful, limited to only five clients, partly due to the Government's agri-loan scheme with preferential terms coming in at the same time to the same target group and partly due to huge paper work, an unsatisfactory/non business minded machinery sales outlet and a reluctance to decentralize business functions to the region requiring too many visits to Tbilisi office obtain the leasing service.

In 2014, entry points for another product were discussed with micro finance institute Credo, which changed its status to a bank in 2016. The micro loans market is relatively flooded and Credo needed to find ways to stimulate and grow its core market. The programme failed to find an entry point with one person in the company, however Credo then independently approached the tractor implements and spare parts company Marmot Ltd. and the veterinary input supplier company Roki Ltd. Both programme facilitated entities owned growing businesses and offered coverage in the remote area in Georgia both of them started offering Credo agro loans to their customers. Now programme facilitated livestock nutrition input supplier company Agro Trading Ltd started negotiations with Credo on copying the model.

Marmot Ltd: In 2010-2013 Marmot was an importer of 80% of auto parts and 20% of machinery implements for sowing and ploughing from China. The programme found this company during the Market Survey in 2013 and saw a big potential of business growth as Marmot was able to import different types of equipment for hay processing from various countries by offering the products with different prices at the wholesale rates. The company adopted the programme facilitated interest free 25% subsidy model for machinery service providers and farmers buying implements for hay making and started offering interest free credit through Credo to its

customers. Credo agreed to reduce its 8% base interest rate to 5% which is covered by the company, meaning that the loan is interest free for the customers.

 *Roki Ltd:* In 2012, the programme partnered with Roki a national veterinary inputs supplier. It had strong social ethos which was translated into training, information and quality service provision to vet pharmacies in Georgia and through its service centre in Tbilisi however its outreach was main in urban areas in poultry and rabbit rearing, rather than the core market of dairy cattle due to perceived rest and unfamiliarity with the potential market. They verified a rural demand and strengthened town based vet pharmacies through distribution, information and business plans, their services were partially replicated in other 368 vet pharmacies throughout Georgia. The improved business model convinced Roki Ltd Tbilisi office and 36 vet pharmacies to cooperate with Credo to offer low interest credit to their customers.

Findings

Farmers prefer to get loans in the agriculture inputs suppliers' shops for buying inputs rather than go to the banks or micro financial institutions. The loans there are more targeted and the procedures are easier than in Banks and MFIs, the customer gets an answer in 15 minutes and in the most cases the answer is positive. When a farmer goes directly to the bank or MFIs, interest rate is 11%, it takes about 2 days and the representatives have to visit a farm, check a customer's banks account, additional income and etc. Credo prefers this method of credit delivery as the machinery and vet shops are screening customers and reducing risk, providing a guaranteed market for Credo with wide rural outreach without the need for expensive marketing.

Gender: Credo, as a leader in the agri loans service in Kvemo Kartli, states that 80% of customers are livestock producers, from whom 70% are women. Female milk supplier's regular income received from the selling milk has been resulted in taking loans for purchasing of labor saving goods, cows, land, houses and making home improvements. The women have become visible for Credo as the main milk suppliers who control money from selling milk. Women's access to finance refers to women's ability to gain access to credit in their own names, without borrowing under their husbands.

70% of credo's livestock producer customers are women



The Kvemo Kartli Impact Assessment 2017 showed that 40% of programme beneficiary households have loans from banks and MFIs. Of these 10% have experienced some problem with repayment i.e. a delay of more than one week in repayment schedules, the same figures for non-beneficiaries' is 24%.

Usage of the agro loans service
Marmot



20%

of its customers buy implements and tractors with **interest free credit**



460,000 Gel

An interest free credit to Marmot customers through Credo for agro machinery

5

Machinery service provider customers of Marmot have opened their own shops with help of Marmot.

All of copying the interest free credit model

Roki



15%

Of Roki customers buy veterinary inputs with with Credo loans of **3% interest rate**



756,000 Gel

Of credit to Roki customers through Credo for vet drugs and other products

37

Vet pharmacies copied Roki's model of offering low interest loans.

Expansion of the agro loans service



Accessing Publically Available Funding

Business Development services

Significant funding has been put into the agricultural sector by the Government of Georgia through the Agri-Credit programme offering low interest loans to agricultural sector producer enterprises and the launching/Expanding Micro Businesses (both under Produce in Georgia programme), offering micro loans to the small farmers to kick start a micro venture. The importance of the business development services for rural businesses has been increasingly recognized by the government and the enterprises. Working experience with the ALCP programme, knowledge of constraints of rural SME's was crucial for the government to start working with First Consulting in Tbilisi and Darts Group in Batumi to give consultation to the businesses to get the funds. First Consulting and Darts Group are using the same model of business plans developed for applicants by the ALCP and 21 entities in KK, SJ and AJ have already got the Governmental Agri loans with 5, 480, 200 gel funds for their business expansion.

Women's Room

After the TOT training for the Women's Room coordinators on 'Business Planning and Start Up' the programme facilitated through Darts Group, the WRs started providing business consultations for those applying to the state grant programmes like 'Produce in Georgia', 'Micro Grants for Mountainous Regional Development', 'Start Up Georgia', etc. In total, 110 business consultations have been provided and 19 business projects (16 projects from women) have already been granted of 154000 Gel for starting up guesthouses, fishery, laundry, restaurant, flower shop, etc. 5 women from Diokinisi Village, Khulo municipality, where cheese factory is operational, have applied to purchase milking cows to produce more milk and supply it to the factory.

Future Entry Points

There is potential of copying the access to finance model developed in Georgia to Armenia. Roki Ltd who has a level of trade and service provision in Armenia will seek to deepen those services with more elements of the

full embedded package. Marmot has already signed an agreement with Sev-Agas Ltd, a machinery input supplier in Armenia to supply implements and tractors; the company sees the potential of copying the same model of offering agro loans. ACBA Credit Agricole Bank in Armenia is a key financing partner for farmers and small rural and urban businesses and FINCA bank offering business loans, rural loans and consumer loans with 34 branches in Armenia.