

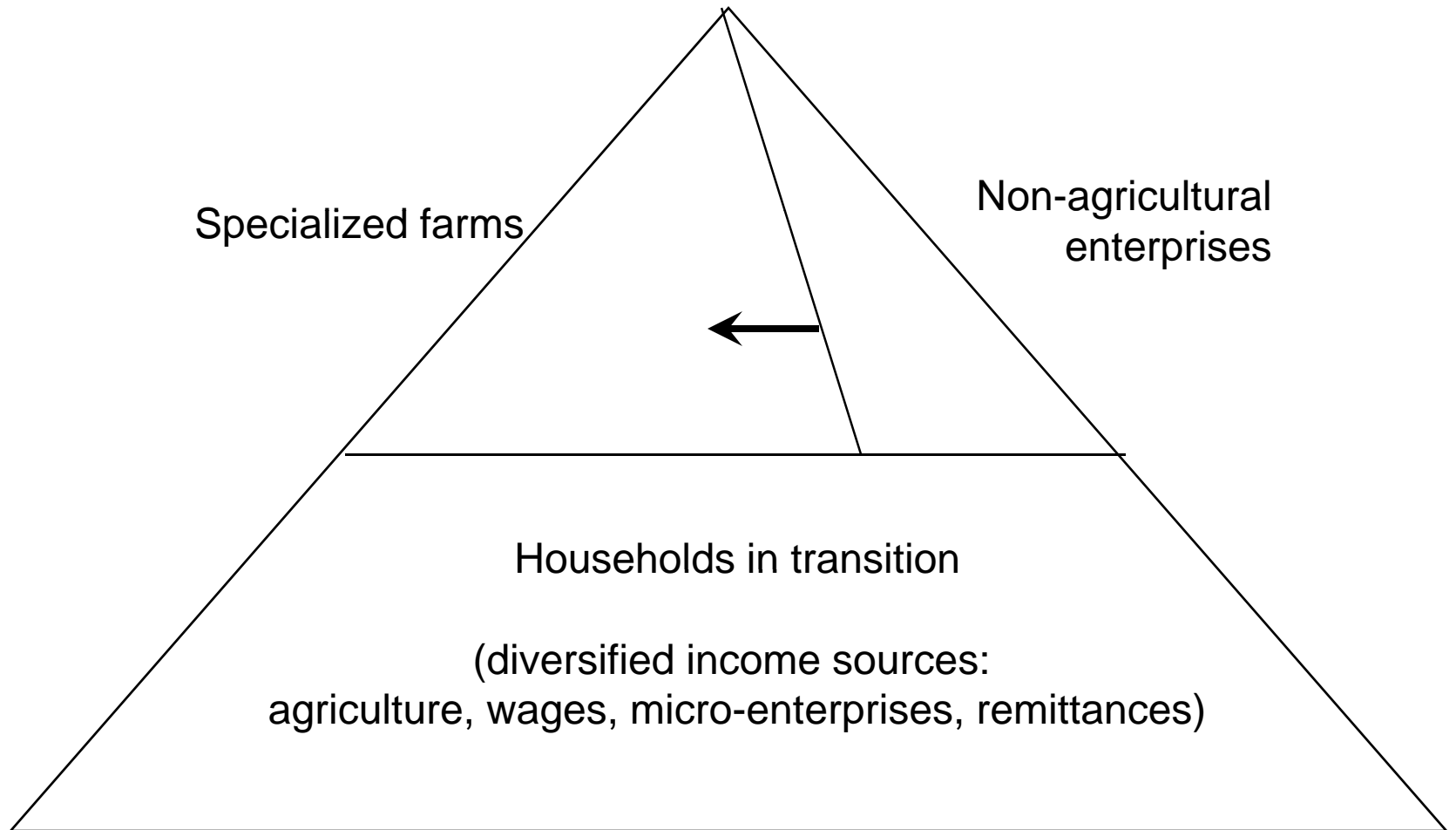
*"Improved Access to Financial Services: Bringing
Microfinance to Scale in Cambodia"*

Rural Finance: Products and experience

Juan Buchenau
November, 2007

Financial Products for Rural Finance

The Rural Segments



- **Products for households in transition:**

- Multi purpose loans
- Products for emergencies
- Flexible savings instruments
- Remittances
- Savings and loan products linked to remittances

- **Products for farmers:**

- Investment loans
- Warehouse receipt loans
- Trader loan arrangements
- Future options
- Index based insurance

- **Technologies:**

- Credit scoring
- Use of handheld PC's
- ATMs

Multipurpose Rural Loans

- Adapted micro-enterprise loans which consider agricultural income
- Based on projected households' income, less on collateral
- Valued by clients and providers
- The provider's administrative costs are higher than those of micro-enterprise loans
- Risk costs may be similar
- Examples: ProCredit in El Salvador, Los Andes in Bolivia, CERUDEB in Uganda

Products for Emergencies

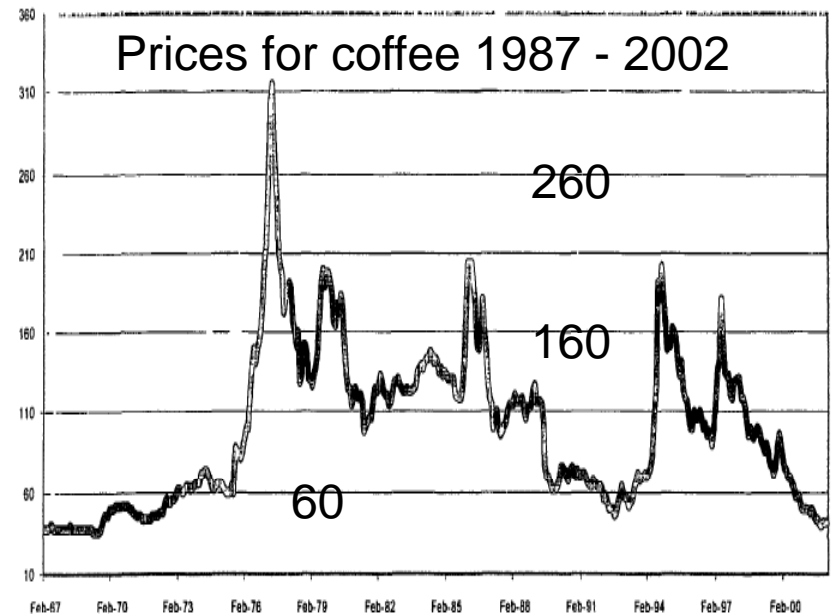
- Three types of products:
 - Preparedness products (savings / insurance / loans)
 - Products for relief during the emergency (small loans which are rapidly disbursed)
 - Products for reconstruction
- Highly valued by clients, but offered as such only by few institutions
- Examples: MFIs in Bangladesh

Ag. Trader – Financial Institution Arrangements to Provide Loans

- Two models:
 - Financing the trader
 - Financing the trader's clients
- Some critical issues:
 - Limited scope
 - Trader's performance is risk factor
- Many traders are already granting loans: how big is the additional legitimate demand which could be reached through such arrangements?
- Examples: Trisan Costa Rica, Kisan Credit Card of NABARD in India

Agricultural Investment Loans

- The longer the term and the bigger the amounts the higher the challenge to assess and monitor:
 - future prices



Agricultural Investment Loans

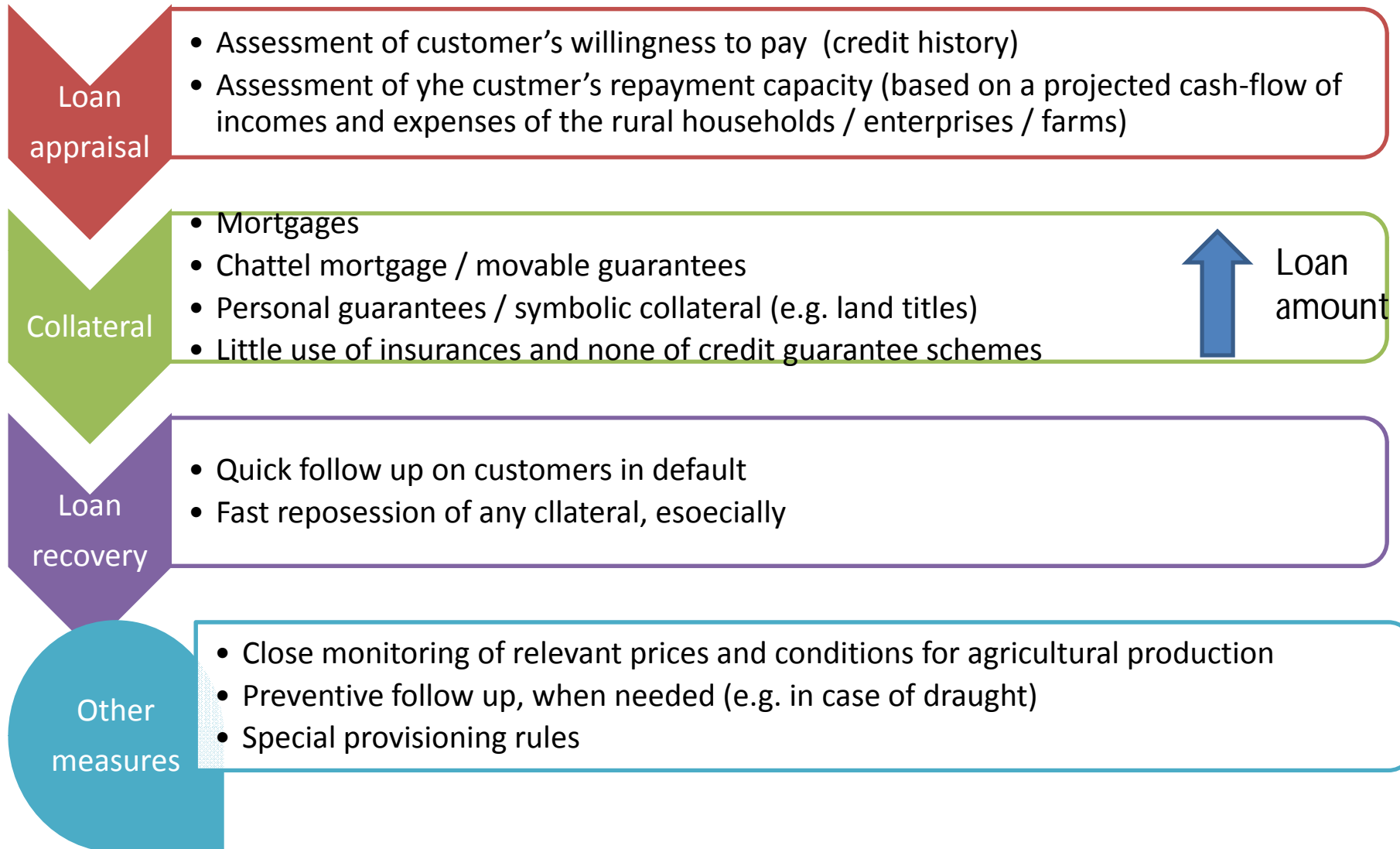
- The longer the term and the bigger the amounts the higher the challenge to assess and monitor:
 - future prices
 - conditions for agricultural production
 - client's management capacity (individual / associations)
 - value of collateral

Constraints in the legal framework may limit enforceability of collateral and thus make it very difficult to give out long term investment loans

Multipurpose Rural Loans:

The Example of Banco ProCredit El Salvador

Key elements used to manage lending risks (lending technology & other measures)



Rural Customers Served I

Sector	Number of outstanding loans	Participation in total number of loans	Portfolio balance in US \$	Average outstanding loan amount \$
Agriculture	7,388	30%	3,472,397	470
Livestock	3,061	12%	5,773,425	1,886
Trade	8,246	33%	8,802,453	1,067
Manufacturing	1,783	7%	2,279,589	1,278
Services	4,495	18%	7,891,154	1,755
Totals	24,973		28,219,018	

Source: ProCredit El Salvador Accounts (2006)

Rural Customers Served II

Item	ProCredit clients	National average
Size of household	5.9	5.9
Average schooling (up to 18)	4.1	3.7
Age of hh head	46.3	51.0
Women as hh head (%)	20.8	13.0
Number of hh members that migrated	0.7	0.9
Hectares of land	2.6	1.8
Total number of crops	1.6	1.3
No. of types of animals	1.5	1.3
Avg yearly per capita income (USD)	1,100.0	620.0

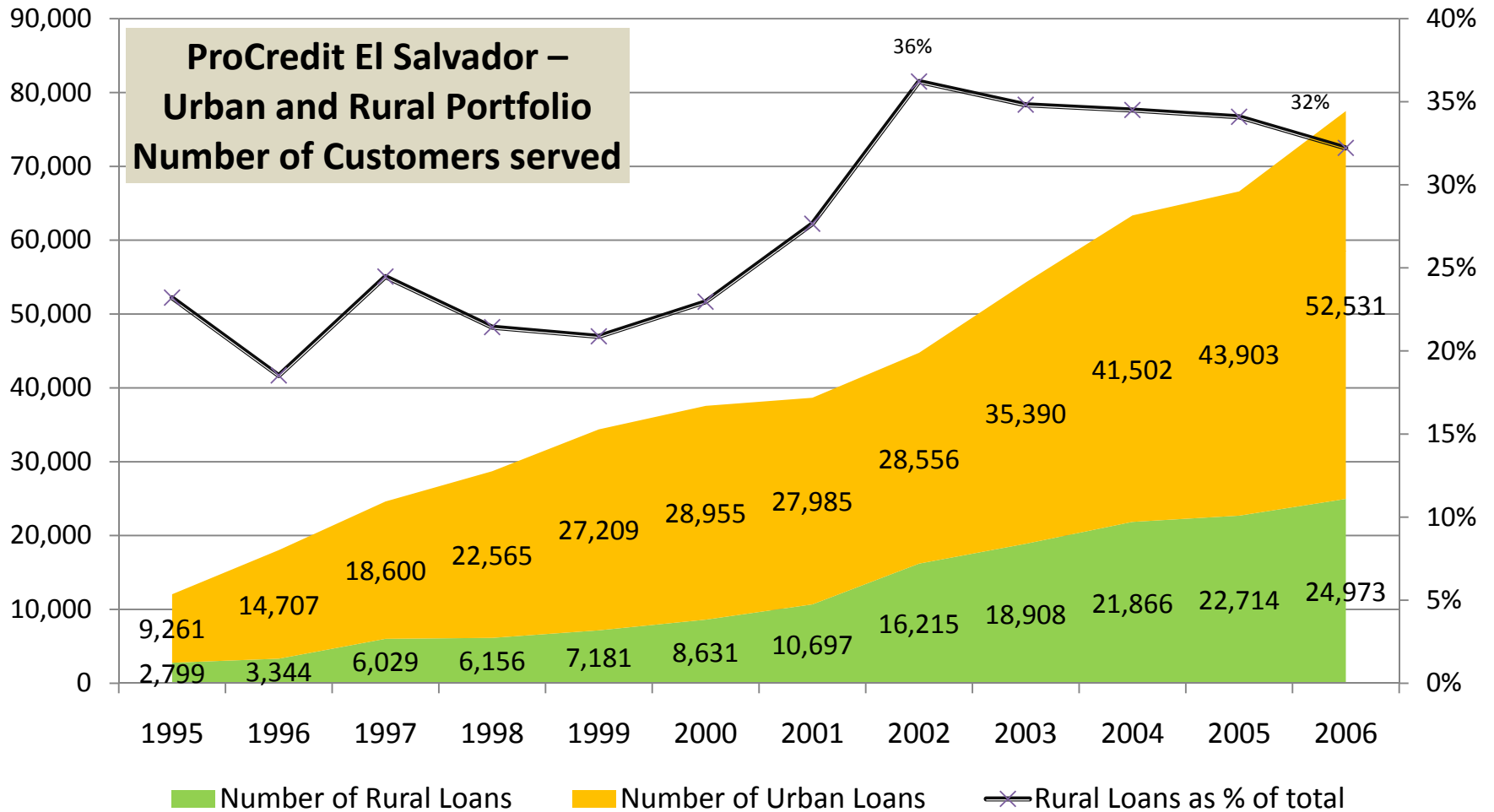
Source: Gonzalez-Vega, et al. (2002)

Rural Loan Officer Performance

Item	Rural Loan Officers	Urban Loan Officers
Median number of clients	320	289
Median portfolio	\$362,000	\$488,000
Median of loan sizes	\$1,130	\$1,686
Proportion of women borrowers	27 percent	73 percent

Source: ProCredit El Salvador Accounts (2006)

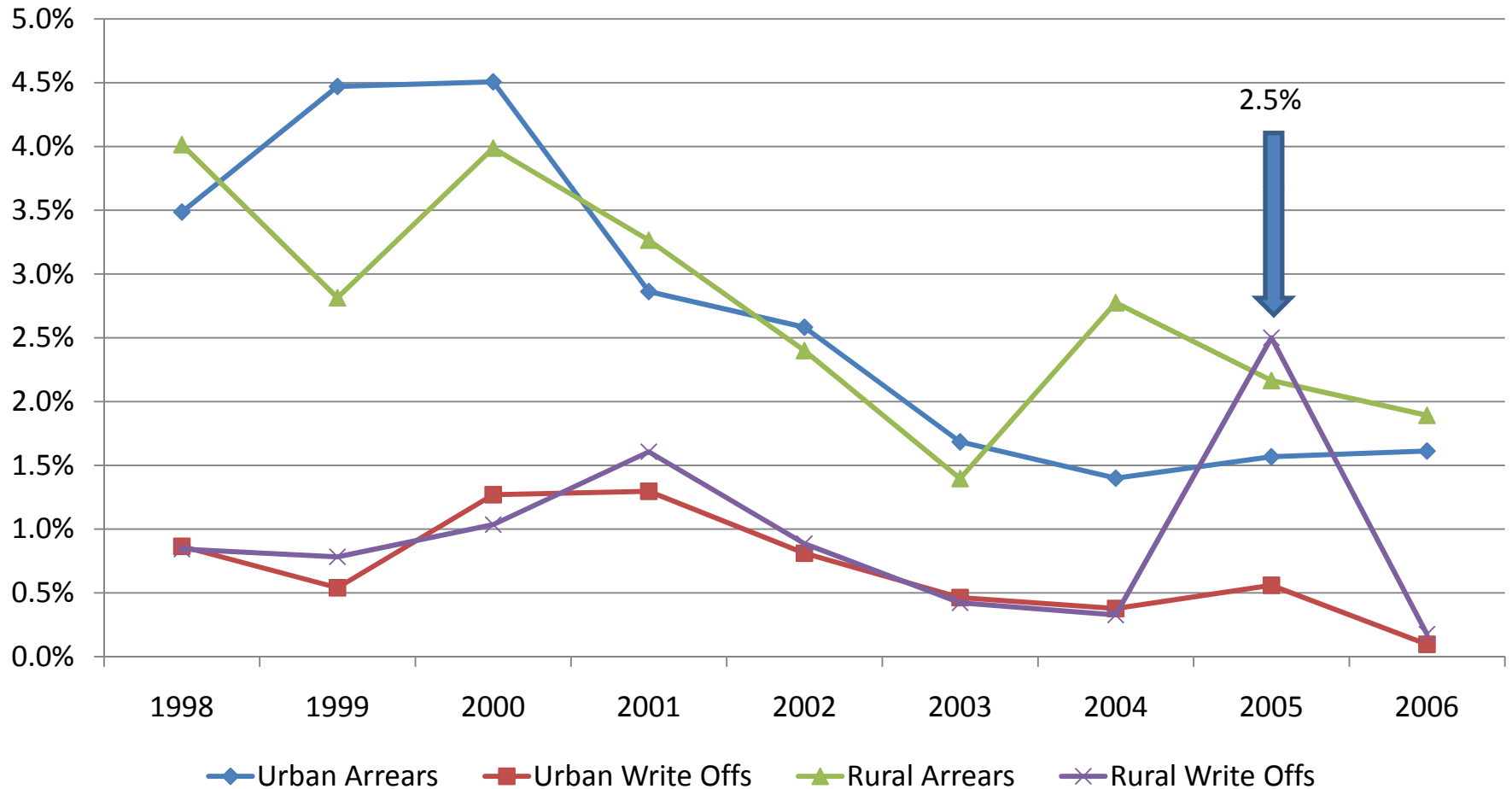
Relative Importance of Rural Lending



Source: ProCredit El Salvador Accounts

Risk Management – portfolio quality

(Write-offs as % of each year's average portfolio)



Source: ProCredit El Salvador Accounts

Rural – Urban Profitability

(annualized data)

	Urban Branches	Rural Branches
Average loan size	1,871	1,431
Income from loans / average loan portfolio	18.7%	19.8%
Direct operating costs/average loan portfolio	5.8%	6.2%
Direct personnel costs/average loan portfolio	3.6%	3.7%
Cost of loan loss provisions / average loan portfolio	2.9%	1.3%

Source: ProCredit El Salvador Accounts (2006)

Factors for Success

- Commitment of owners, board and management to rural market
- Appropriate lending technology
- Performance based incentives adequate to rural lending
- Permanent focus on efficiency and costs
- Appropriate pricing of loans to generate a moderate profit after deducting necessary costs