



Indonesia Agri-finance

Promoting Financial Inclusion for Farmers

Indonesian farmers are largely excluded from formal financial services – only 5% of lending goes to a sector that contributes 15% of GDP, and most of this goes to larger, commercial plantations.

Where bank credit is available, it generally requires collateral – this is often a problem for the 90% of Indonesian smallholders who do not have formal title to their land. Limited access to inputs and credit is a key hindrance for smallholders in Indonesia to improve their productivity and net income.

Further complicating rural credit is the small farm size (around one hectare on average), and the lack of strong farmer groups that can help channel fertilizers, credit, and market produce.

WHY IS AGRI-FINANCE DIFFICULT?

Banks make their margin between interest and loan administrative costs, which do not vary much with loan size; the smaller the loan, the higher the relative cost per loan.

Well-run banks earn about 3-4% on each loan; one bad loan can cancel out 25-35 good ones.

Lending to farmers who do not have a culture of borrowing and repaying further increases operating costs, as more frequent contact is needed.

Microfinance is mostly successful in densely populated (usually urban) areas, where visiting clients costs less.

In general, smallholder credit requires both frequent farmer contact and an agribusiness partner to help facilitate repayment; it is very difficult to do this sustainably.

PROJECT OBJECTIVES

The project aims to develop commercially feasible, replicable smallholder credit models. To achieve this, it will:

1. Form a consortium of agribusiness partners participating in rural credit;
2. Develop at least two loan products, and disburse \$3.2m in loans across different commodities by project-end;
3. Assist farmers on good agricultural practices, helping them increase yields by 20%;
4. Assist the screening and inclusion of farmer groups in supply chains, providing tools to improve management and integrate supply into global chains.



PARTNERS & ACTIVITIES

IFC works with Indonesia's Bank Tabungan Pensiunan Nasional (BTPN) for the development and roll-out of agricultural credit products; bank staff are assisted with technical expertise and training.

Armajaro, a global soft commodity trading house, serves as the off-taker and provides detailed knowledge on its existing farmer base to the project.

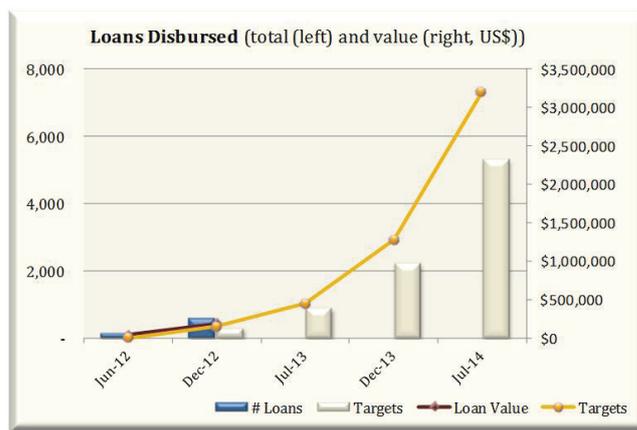
Amarta-II, a USAID-funded cocoa and coffee development project, works with IFC to provide technical training and credit promotion activities to the farmers; its field workers receive training in best practices and field tools.

Together, we set up partnerships for agri-finance, roll out commercially viable credit to smallholders, provide technical training and include farmer groups in global supply chains.



DEVELOPMENT IMPACT

- The project aims to develop commercially viable, replicable credit models for small farmers.
- Credit is a key ingredient for smallholder growth. Enabling a farmer to buy \$300 of inputs may increase his income by \$600. Across the project's farmers, this can improve farming practices and generate \$1.4 million in extra income.
- The project aims to reach more than 3,000 farmers and will continue to reach additional farmers after project-end through the roll-out of viable smallholder credit.
- Combined with credit, the project will help 2,600 farmers adopt good agricultural practices and establish links between farmer groups (representing 1,800 farmers) and agribusiness supply chains.
- The commercial credit models, once replicated, will continue to provide farmers with access to agrifinance.



RESULTS TO DATE (since June 2012)

- The loan product includes a fertilizer and a cash component, and is tailored to the cocoa production cycle.
- With its first rural loan product, the project has initiated three loan cycles and disbursed 588 loans.
- The total amount disbursed is on average \$321 per loan.
- The project has provided training to 48 field workers, who in turn work with 674 farmers on adopting good agricultural practices.
- Already, 568 farmers are supplying into agri-supply chains through farmer groups.

In Indonesia, our advisory services are delivered in partnership with:



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