

## Banking for Small Farmers through Innovative Alliances



### CLIENT

Banco Itapúa SAECA is a Paraguayan financial institution with almost 40 years of experience, mainly in the productive sector. The bank has a strong presence in the interior of the country, with 22 branches in Itapúa, Alto Paraná, Misiones, and other departments where agricultural and livestock production is concentrated. Most of the bank's 30,000 clients are small and medium-size producers.



### IDB SUPPORT

The Inter-American Development Bank's Opportunities for the Majority (OMJ) approved a loan of up to US\$5 million to Banco Itapúa to expand a financing program for small producers who are part of the supply chain of large anchor companies. Farmers will use resources to purchase agricultural inputs and equipment. The project's overall cost is US\$15 million, of which Banco Itapúa will contribute US\$10.



### THE CHALLENGE

The agricultural sector has long been the foundation of the Paraguayan economy. The sector directly or indirectly employs nearly a quarter of the population, contributes a fifth of GDP, and accounts for three-quarters of exports. However, growth of the sector is constrained because low-income small farmers, who constitute 84 percent of producers, cannot access credit to expand production. Only 15 percent of the country's 242,000 farmers with less than 20 hectares have access to credit, in large part because they have no credit history and cannot document their repayment capacity.

In addition, lenders are wary of farmers' uncertain income streams, which depend on the weather and other external factors that can affect yields. In recent years some financial institutions have attempted to service these rural producers by offering financing tailored to the clients' payment capacity. But their efforts have generally been unsuccessful due primarily to the high costs of servicing such a dispersed and remote market. As a result, access to credit for farmers at the base of the pyramid (BOP) has actually decreased over the past 20 years.



### THE SOLUTION

Because so few of Paraguay's small farmers have access to formal credit, agroindustries have become de facto sources of financing by providing working capital and inputs to producers in their value chain. The loan amounts and payback terms are generally not optimal for the farmers, but a promising consequence of the process is that these "anchor" agroindustries possess the very information about producers that other lenders need, including their credit history, production levels, and repayment capacity. By drawing on alliances with these anchor firms, Banco Itapúa aims to channel credits of up to US\$5,000 to 8,000 rural producers at the base of the pyramid.

Banco Itapúa already has alliances with nearly half of the country's agroindustries that work with soya, corn, sesame, stevia, rice, and other products. To reduce high transaction costs associated with providing rural credit, Banco Itapúa will use a mobile technology that enables electronic loan disbursements and payments. Project beneficiaries, mostly in the country's fertile eastern and southern regions, will use the financing for agricultural inputs and pre- and post-harvest investments. The loans will also offer a harvest insurance option to help farmers mitigate weather-related risks.



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## INNOVATION MAKES THE DIFFERENCE

Banco Itapúa's main innovation is based on win-win alliances with agroindustries to increase market penetration, and the use of technology to ensure access to quality financial products for Paraguay's low-income farmers. Banco Itapúa saw an opportunity in the commercial relationship between large agro-industrial companies and small producers. By creating alliances with these "anchor" companies, Banco Itapúa can access valuable information on the financial needs and repayment capacity of small farmers, reducing information asymmetries that prevent producers from accessing affordable credit. Banco Itapúa will replace the anchor companies in the financial relationship with small farmers, gaining higher penetration in rural areas. Disbursements to farmers will be made electronically, and farmers will be able to use their mobile phones to pay for agricultural inputs. For the first time, most of the farmers accessing financing through this program will automatically get a savings account with Banco Itapúa.

OMJ 2014 Portfolio



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