

Pacific Microfinance Week 2015

Next mile financial services in the Pacific

Honiara, Solomon Islands
21-25 September 2015



Plenary 6: The potential of value chain microfinance

Session Synopsis

Convenor



Organiser



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Moderator:

- Mr. Moses Pelomo, Chairman, Pacific Horticulture and Agriculture Market Access

Speakers:

- Ms. Gima Kepi, Manager, Women's Banking Unit, MiBank
- Mr. Bob Pollard, Managing Director, Kokonut Pacific Solomon Islands
- Mr. Ian Jones, Executive Director, Vanilla Growers Association (Vava'u) Inc.
- Mr. Amanaki Funaki, Vanilla Growers Association (Vava'u)
- Mr. Simon Thompson, Finance Sector Development Consultant, Pacific Private Sector Development Initiative, Asian Development bank

Value chain microfinance is emerging as a source of finance for smallholders and primary producers in the Pacific to build livelihoods, involving partnerships between producer cooperatives, market-connected companies and financial services providers.

Economic Empowerment of Women

Throughout the Pacific women are prominent sellers at markets; particularly in crafts and agriculture. Microfinance can enable women to move from the informal sector to registered businesses and to sell their goods to larger markets, including hotels and supermarkets. While many women have limited formal business skills there is an inherent capacity and strong interest in productive activity to generate income to sustain themselves and their families. The creation of cooperatives, accessing downstream markets, and financial literacy are the areas of capability they are looking to develop.

Access to financial services remains a challenge for women in the Pacific. Most women vendors do not have a bank account so selling products through informal channels is simply a way of sustaining themselves. Microfinance can provide opportunities to build savings to sustain themselves, and expand and make their livelihood activities and businesses more profitable. A key obstacle hindering women's access to financial services has been the many requirements needed for a customer to get a bank account. With pragmatic approaches to know-your-client requirements, a bank account can now be opened with a letter from a person of authority in the community or church to confirm the applicant's identity. A bank account enables women farmers, fishermen and other smallholders to transact with markets, producers and suppliers more efficiently and safely than a cash-based system. Where transactions and amounts are not large enough for conventional bank accounts, mobile wallets and payments through mobile money is an alternative.

Challenges and Opportunities

While downstream producers can help smallholders, providing all of their financing is not core business. Producers are better placed to work with financial services providers to secure finance for smallholders.



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Producers based overseas are more inclined to engage with Pacific smallholders when there is appropriate legislation in place, and this legislation is enforced.

Reliance by financial services providers on conventional forms of collateral including land with community or family title has limited access to finance by smallholders, but innovations in secured transactions and personal property now enable banks to take security over other assets such as contracts, inventory and commercial agreements.

For value chain financing, the value lies in the strength in the linkages, with the best place to start being the exporter or producer (or a big name in the chain who can demonstrate strength and longevity in a contract), and then working backwards.

An understanding of irregular cash flows associated with staged improvements, production cycles, and markets of farmers and the need to tailor repayments accordingly is important. Here development partners can work with banks to share best practice and build an understanding of how to work with producers. And for smallholders, how to manage cash flow, budget, save, use insurance, etc.

Value-chain financing is a collaboration between all stakeholders involved along the chain. For it to be a success, each person or organization link must work together and there must be a level of trust between all linkages in the chain. Transparency in arrangements, particularly pricing, is important. Collaboration of smallholders in the form of cooperatives or collectives helps strengthen the chain – in securing supply from the standpoint of producers, and for smallholders, in negotiating contracts and accessing finance. Education can help to explain the effect of the interlinkages and needs and interests of each link in the chain.

Key Points:

- Value chain finance can be an effective way to empower women by providing a new, or strengthening an existing, conventional finance channel.
- In some circumstances, value chain microfinance may be the only way that smallholders can access finance, with members of a successful value chain demonstrating some understanding of the respective needs and interests of each link in the chain, be it a smallholder, producer, exporter or input supplier – it has to work for everyone or it doesn't work at all.
- Microfinance is just one of the lubricants in a well-functioning value chain. Other pre-requisites include: guidance, support and good policies from government in fostering the industry; good support infrastructure in areas such as communications, ports and shipping; an understanding of how the value chain interacts with communities and cultures; and the nature of land tenure and place of the individual, family and community.



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