Keynote Presentation

Increasing Access of Smallholders to Finance for Sustainable Agricultural Mechanization in Asia and the Pacific: Challenges, Practices and Opportunities

Anshuman Varma
Programme Officer and Deputy Head
Centre for Sustainable Agricultural Mechanization

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Outline: Financing for Sustainable Agricultural Mechanization

I. Introduction
II. Challenges
III. Current Practices
IV. Opportunities & Suggestions
I. Introduction

Lack of financing for smallholders to access suitable machinery and equipment is one of the key constraints to inclusive and balanced sustainable agricultural mechanization development in the Asia-Pacific region.
II. Challenges in financing for SAM

1. Why commercial banks and microfinance industry cannot sufficiently meet financial needs in the agricultural sector?

- Seasonal variations → Irregular cashflows
- Price risks (e.g. due to weather) → Uncertain repayment capacity
- Inadequate risk Instruments → Heavy credit-rationing → Rural assets (such as land) are less suitable collaterals than, for instance, urban real estate
II. Challenges in financing for SAM

2. What are challenges particularly faced in Asia-Pacific region?

- Frequent natural disasters (Region most affected by natural disasters)
- Large population of smallholders → More difficult to access financial resources  
  According to Singh and Zhao B (2016), about 90% of the world’s farms with land area < 2ha are in Asia and the Pacific region.
III. Current practices in financing for SAM

(1) Subsidy as a means of financing for promoting agricultural mechanization

- Widely used financing instrument in many countries
- *Case of China:* Continuous increased investment and subsidies on purchase of agricultural machinery → among the major driving forces
- However many countries in the region are unable to provide timely and sufficient subsidies to smallholders

*Level of Comprehensive agricultural mechanization across China*

- 2008: 45.8%
- 2016: 65.2%
III. Current practices in financing for SAM

(2) **Custom Hiring** – an effective means for smallholders to get access to agricultural machinery

- Custom hiring can:
  → bring down the average cost
  → reduce drudgery and physical workloads
  → offer rural employment opportunities

- Existing constraints: policy support, skills, technologies, managerial competencies...

*Case of Thailand: 90% of combine harvesters are operated via custom hiring.*
(3) **Microfinancing plays crucial role in empowering smallholders in financing**

- With small loans, microfinance helps to reduce risks for both lenders and borrowers.
- A wide variety of delivery systems and institutional models exist for microfinance.
  Non-governmental organizations, cooperatives, self-help groups, rural banks...
- However, smallholders in many countries in the Region have limited access to microfinancing due to insufficient credit facilities and higher interest rates.

**Case of Cambodia:** A wide range of private banks provide schemes of loans and credits with **low interest rates and duration from 3 months to 5 years.**

- ACELEDA bank
- Canadian bank
- AMK bank
- Vision Fund
- ......
III. Current practices in financing for SAM

(4) Financing Leasing – a means with significant potential to be fostered and developed

- Emerged in 1950s in US: Financing capital & Financing goods

- Forecasted marketing volume of financing leasing for agricultural machinery expected to reach 150-200 billion CNY (21-28 billion US$) in year 2020 in China.

Three parties are involved in the process:
- Lesser
- Lessee
- Machinery Supplier
Some suggestions for further consideration:

- Enhanced country-led efforts/inputs on *policy formulation* in supporting financing systems for sustainable agricultural mechanization.
- Emphasis on improved and innovative *financing means* engaging development banks, commercial banks, financial institutions, insurance companies etc.
- Enhanced *social service network* (including custom hiring) for sustainable agricultural mechanization.
- Improved *regional coordination* among member States through policy dialogue, knowledge/technical exchange and training programmes.
Thank you!