# INNOVATIONS IN RURAL MICROFINANCING

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## Abstract

*The progress of financial inclusion is the result of digitization trend of the financial sector, with a major impact on financial institutions. Creating new distribution models (networks of external agents, banks without branch network), the emergence of new opportunities in access management and customer back-office are just some of the challenges microfinance sector has passed through innovation and adaptation continues.*

*The phenomenon of "Microfinance 3.0 'has created new opportunities for customers: easy management of household savings, revenue collection, payment of bills and taxes. Using it still must become more concrete and consistent in Romania, and customers should be educated to master these new tools digitized. It is indisputable that a revolution is taking place! In the context of the financial crisis, microfinance continues to grow, offering new opportunities digital form, be it access to new customers or help and services provided to beneficiaries.*

*Rural area , as reported by the EU Rural Review are estimated to generate 48% of the EU's gross value added and provide 56% of the Member States total employment. A typical characteristic of the rural economy is the presence of small and medium-sized enterprises (SMEs), many of which are micro-businesses with a high proportion of self-employment.*


***Key words:*** *rural microfinance, rural credit, food security, financial inclusion, rural development.*

***JEL classification:*** Q, Q0. Q1

## Introduction

Yet, we are witnessing now at a lot of debates and views that make us say that increasingly more policy makers turn their attention to social and financial inclusion of the countryside. The development of specialized micro financing entreprises in rural areas is the pillar of support for small business and also for the sustainability and a real improving of rural life. A major percentage of rural households shows that they do not have reliable and affordable access to finance for agriculture and other livelihood activities. Many small farmers living in remote areas, where the retail banking is discret or not at all and production risks are high. The recent financial crisis has made even more stringent the credit granting and the need to explore innovative approaches to rural finance more urgent. Innovations in rural and agricultural microfinance have significant potential to improve the food security of the poor. Although the microfinance has been widely studied, there is a big gap of knowledge, especially regarding the possibility of expanding access to finance for rural area and for agriculture. International Institute for Food Research (IFPRI) 2020 Vision, initiative of rural and agriculture finance team in the World Bank was to conceptualize and assemble the concept of microfinance to rural and agricultural knowledge gap by examining innovations in the provision of financial services for rural households and creating innovative tools for effective management of risks faced by the poor in rural areas. A 2006 case study on three leasing providers in rural areas showed that in all three cases, rural portfolios were as profitable as urban portfolios. Arrendadora John Deere, the largest provider of car leasing farm in Mexico had nearly 63 million USD in the lease machinery, DFCU Leasing, the largest provider of The lease in Uganda, had a portfolio worth $ 5 million service leasing in rural areas and network leasing Corporation Limited, a leading provider of microleasing in Pakistan, had a leasing portfolio of over USD 2.4 million in rural areas. Small losses in leasing activity, strong demand from customers for the assets financing and a favorable legal and policy environment have made leasing a lucrative business areas for these companies. For customers, access to finance at a reasonable cost, the demand for fast and easy access to supplier appear to be significant benefits. Based on the

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experiences of suppliers, the study identified the following lessons on the management of financial leasing in rural areas:

- ✓the rural leasing is a way to acquire productive assets. All rural lease contracts offered by the three companies there are the type of financial leasing and were used to finance the purchase of assets (as opposed to renting of assets);
- ✓rural enterprises of different sizes benefiting from the leasing, but a supplier may not be able to serve equally all companies, suppliers capabilities are limited because of differences in skills and capabilities required to effectively serve businesses of various sizes;
- ✓non agricultural enterprises represent a significant proportion that uses leasing in rural areas;
- ✓the leasing activity in rural areas can be profitable, but it needs government support, all three companies studied had access to government funds or from donors, particularly when it came to expanding their operations in rural areas;

for a company focusing on providing leasing services to rural areas just can not be a viable solution, because it is a specialized financial activity with greater economies of scale, high costs and risk factors;

There is now challenged to support the increasing availability of leasing in rural areas. Should be taken in mind that leasing is a viable tool for financing the assets  from rural area. The nature and the capacity existent financial institutions, the potential demand for financing investments in rural areas and the development of the leasing industry should establish mechanisms to support increased access to services for rural enterprises. Also, in countries that do not have a clear legal and regulatory framework for leasing will be required the assistance at the government policy level. Such support must be sectoral and not limited to leasing area. A good legal framework for leasing include:

- ✓sharp definitions of a renting contract, leased assets, responsibilities and rights of the parties to a leasing contract;
- ✓clarity in the allocation of liability for third-party losses arising from the operation of the leased assets;
- ✓The provision of priority of claim on a property leased less or;
- ✓a regulated framework for easy and quick repossession of leased assets.

The use of accounting standards internationally accepted and impartial tax code can enhance the development of the leasing sector. The existence of a functional asset register, the availability of insurance and maintenance for equipment at a reasonable cost, and there is a good market for used assets there are also necessary for the development of financial leasing industry. Targeted institutional support may also be required to contribute to the development of the rural leasing.  The financial leasing is a relatively complex transaction. To successfully perform the financial leasing operations, organizations not only need to have well-trained staff, high quality (accounting and internal control and risk management of the portfolio as a whole). Types of institutional assistance that can help should therefore include:

- ✓grants for startup costs of leasing operations, thus helping compensate transaction costs and risk of operating in rural areas;
- ✓financing to establish trade links between providers;
- ✓technical support for leasing companies;
- ✓the provision of capital, loans or guarantees, to extend the mobilization of rural areas.

A wide range of leasing companies, banks, financial cooperatives, microfinance could benefit from such support. Institutional support may include capital support when access to long term funds is a critical constraint.

Since the founding of Grameen Bank in Bangladesh in 1976, microfinance activity exploded. On 31 December 2007 those 3,552 microfinance institutions reached 154 million customers worldwide, of which approximately 106.6 million were among the poorest when they took their first loan. Such expansion may be at least partially attributed to the widely adopted practice in microfinance programs, namely lending group. Unlike individual loans, the lending group (joint liability) granting a loan to a group of borrowers, the whole group being responsible for the duty of every individual member of the group. This practice allows microfinance programs rely mainly on accountability and mutual trust between group members, rather than a financial guarantee. Since the poor often do not have a financial guarantee, the loan programs provides a feasible option the group to extend credit to poor people. There are considerable debates about whether of such groups of achieving repayment performance while serving poor borrowers.

In the present the Commission and European Investment Fund mobilise €237 million in loans to support 20,000 European micro-enterprises under the European Programme for Employment and Social Innovation (EaSI). The European Investment Fund (EIF), which manages the EaSI Guarantee on behalf of the European Commission, and six microfinance institutions are signing guarantee agreements that will open up access finance for micro-enterprises. They will contribute with 17 million euro to the guarantees signed today, which is expected to result in microloans worth 237 million euro.

The six guarantee agreements target those who wish to start or further develop their own micro-enterprises, in particular people who have difficulties in entering the job market or in accessing finance.

These first deals enabling loans contracts to microenterprises will be signed between the EIF and Qredits Microfinanciering (The Netherlands), Association pour le Droit à l'Initiative Economique (France), Microfinance Ireland (Ireland), PerMicro (Italy), Kutxa/ Caja Laboral Popular (Spain) Nextebank (Romania), covering six countries only 5 months following the launch of the EaSI initiative.

## EaSI Guarantee and EIF

In total, the EaSI Guarantee of 96 million euro is expected to provide a leverage of more than 500 million euro over the 2014-2020 period in loans in order to promote jobs and growth in Europe for the next 15 years, unlocking a total of 30,800 microloans and 1,000 loans to social enterprises. The 96 million euro guarantee for microfinance or social finance providers is managed by the EIF on behalf of the European Commission.

The EIF will not provide direct financial support to enterprises but will implement the facility through local financial intermediaries, such as microfinance, social finance and guarantee institutions, as well as banks active across the EU-28 and additional countries that are participating in the EaSI programme. These intermediaries will deal with interested parties directly to provide support under the EaSI Guarantee.

Microfinance in Europe is gradually being established as an essential social policy tool for the promotion of self-employment, microenterprise support and the fight against social and financial exclusion. This is demonstrated by the initiatives and support from the European Commission in the framework of the “Program for Employment and Social Innovation (EaSI) 2014-2020.”

In this regard, the European Commission considers the following types of loans as microcredit:

- ✓Business microloan: a loan under 25.000 EUR to support the development of self-employment and microenterprises, and
- ✓Personal microloan: a loan under 25.000 EUR to cover personal or consumption necessities such as rent, personal emergencies, education, etc.

This chapter presents the main characteristics of the European microfinance sector (scale, institutional variety, outreach and sustainability) and identifies major changes within the industry.

The data presented are taken from the latest overview of the European1 microcredit sector, a sample of 150 MFIs from 24 countries for the years 2012-2013. Twenty EU member states are covered by the survey.

## Methodology and data sources

Professional considerations. The researcher who assumes the risk of getting an overview of the analysis of the functioning of crediting system in rural areas would have, from the very beginning, some scientific disappointment that our today officials may challenge them. The only aspect, somehow giving hope, is that the system itself works, not for the benefit of the majority of the rural population, but for a few landowners or processors.

Theoretically, the rural population's access to bank loans is allowed for all those who want to invest. Basically, the statistics indicate that more than **85% of the active population in rural areas have no access to rural credit**. In most cases, the financing support of rural producers is achieved by European subsidies, rather than by national ones.

Saying that, the conclusion is under the circumstances, the only solution for the recovery of the Romanian village is setting up a accessible system for crediting the whole working population. From the perspective of such a goal, the financial and banking support for business in the rural sector is currently the main challenge of the government authorities and, especially, of the financial environment, particularly the banking sector.

## Scale and development of the microfinance sector in Europe

During 2012-2013, both the total overall volume and the number of microloans2 show steady growth among the MFIs surveyed compared to previous years.

MFIs from the 24 countries surveyed disbursed a total of 387,812 microloans with a total volume 1.53 billion EUR in 2013 (2011 benchmark: 204,080 microloans with a total volume of 1.05 billion EUR). The trend is the same for organizations based in EU member states only: 207,335 microloans with a total volume of 1.26 billion EUR (2011 benchmark: 122,370 loans with a total volume of 872 million EUR).

Compared to the 2011 data, these figures translate to a 45% increase of the total value of microloans and a 69% increase in the number of loans reported by the EU-based participants of the 2013 survey. Since 2009, the number of loans disbursed has increased by more than 400% and the reported total loan volume has more than doubled indicating remarkable growth of the observed micro– lending activities among the surveyed European MFIs

The allocation between microloans for business and personal use has slightly shifted towards loans for business purposes. In 2013, 79% of the total value of microloans was issued for business purposes and 21% for personal consumption (2011: 74% business purpose, 26% personal consumption).

Overall, these results show the increasing scale (both in terms of numbers and total volume) of microfinance provision in the EU from 2011-2013. Three aspects have contributed to this development: an increased coverage of organizations in certain EU-member states, more loans provided per institution covered (e.g. in France) and a higher average loan size per institution. The average loan size disbursed in 2013 was 8,507 EUR (2011: 5,135 EUR). For EU member states, the average volume was 9,234 EUR, which is an increase compared to the 2011 value of 7,129 EUR.

## Institutional types and missions

Institutional diversity in the sector remains high. Non- governmental organizations (NGOs) or foundations, non- bank financial institutions (NBFIs), governmental bodies, savings and commercial banks, credit unions, cooperatives, community development financial institutions, microfinance associations and religious institutions are all active in the provision of microcredit in Europe. For 2013, the institutional distribution shows that NBFIs (29%) and NGOs or foundations (23%) account for more than half of all surveyed organizations. While the share of NGOs and foundations is similar to the share identified by the last survey in 2011 (22%), the share of NBFIs in the sample has risen compared to 2011 (20%). The prevalence of both institutional types is also observable in the subgroups of small, medium and large MFIs.

The stated missions of the surveyed organizations also show a high diversity with regard to economical and societal policy goals. Microenterprise promotion is the most widespread goal, with more than two thirds of all surveyed organizations including it as part of their mission followed by job creation (58%), social (56%) and financial inclusion (50%). Organizations with a specific focus on women and migrant empowerment form a smaller part of the surveyed organizations (29% and

20% respectively). The vast majority of the surveyed MFIs (85%) include at least one dedicated employment goal in their mission (microenterprise/SME promotion and/or job creation).

## Financial performance and sustainability

A major issue for the European microfinance sector is the question of organisational sustainability.

In terms of portfolio quality, the total value of the microcredit portfolio affected by overdue loans for more than 30 days was lower for both 2012 and 2013 (2012:

12.8%, 2013: 13.1%) compared to 2009 (16%), although a bit higher than in 2011 (12%). This illustrates an ongoing trend in the microloans sector, as institutions with lower portfolio at risk have lower impairment loss expenses and higher return on assets. Although the overall situation for portfolio at risk shows a positive evolution, PaR30 remains quite high for some European countries.

Regarding profitability, microfinance providers manage to achieve positive return on assets (2012: 6.7%, 2013: 5.6%).

With respect to cost structure, the surveyed institutions decreased their expenses compared to 2011 with an operating expense ratio of approximately 18% in 2013. In combination with lower impairment losses, this the rural entrepreneurial environment in Europe

Entrepreneurship depends not only on the presence of entrepreneurial individuals in an area or community but is also strongly reliant upon the socio-economic context. According to the EU Rural Review4 the entrepreneurial environment can be seen as “the inter-connected set of factors that encourage innovation, promote risk-taking and foster the emergence and growth of new enterprises” including “various sources of information, different resource providers, markets, technologies and numerous intermediaries that facilitate the processes associated with business start-up and development.” To foster entrepreneurship, the simple presence of these factors is not enough. In fact, the combination and interaction of these characteristics is also fundamental to stimulate entrepreneurship.

Within rural areas, barriers to entrepreneurial initiative include the specific economic conditions of rural environments and the characteristics of rural entrepreneurs. Therefore in rural areas, a deep understanding of the challenges to entrepreneurial stimulation is important. The ESoF research project5 has further developed the concept of entrepreneurial environment focusing on rural areas. The project analyses the economic, social and cultural factors that influence the development of entrepreneurial skills in rural areas with particular reference to farmers. The main findings of the project draw a distinction between external and internal entrepreneurial environments.

Accordingly, the external entrepreneurial environment is represented by the social and business context in which rural entrepreneurs operate. This includes the repercussions of the globalisation processes and the policies adopted at the EU and national level, the demand from consumers, the supply chains structures in place, climate and energy trends as well as environmental issues.

Conversely, the internal entrepreneurial environment is associated with the skills and competences of the rural entrepreneur, including both the business skills necessary to run an enterprise (sectorial expertise and managerial competency) and the skills needed to deal with changes and grow the business (opportunity, strategic and networking skills).

In order to boost the variety of entrepreneurial businesses in rural areas, it is fundamental to improve both external and internal entrepreneurial environments.

The EU Rural Review (2011) highlights three categories of obstacles to rural entrepreneurship. The first category relates to the small size, low population densities and remoteness of rural communities. The second category concerns the social and economic composition of rural communities. Finally, the nature of internal and external links also strongly affect the rural entrepreneurial initiative. Given these constraints, the provision of microfinance has emerged as a powerful tool to support and empower rural entrepreneurs to improve both the internal and external entrepreneurial environment.

## Microfinance in rural areas

The provision of financial and non-financial services could help entrepreneurs to overcome the challenges to rural development, thereby supporting their businesses and boosting the local economy. In this regard, microfinance often targets unemployed or people excluded from the traditional banking system who wish to start their own business, significantly contributing to self-employment and job creation.

According to CGAP6 rural microfinance encompasses the provision of a range of financial services such as savings, credit, payments and insurance to rural individuals, households, and enterprises (both farm and non-farm). It includes as well the financing for agriculture and agro-processing such as supply of inputs, production, distribution, wholesale, processing and marketing.

Some challenges faced by rural MFIs are similar to those facing any MFI while others are specific to rural organisations that provide loans for farm-based activities. According to USAID7, the following factors constrain both the supply and demand for finance in rural and agricultural areas:

- ✓ High transaction costs for both borrowers and lenders;
- ✓ Low population density and dispersed demand;
- ✓ Limited economic opportunities available to local populations;
- ✓ High risks faced by potential borrowers and depositors due to the variability of incomes,
- ✓ exogenous economic shocks and limited tools to manage risk;
- ✓ Seasonality – potentially affecting both the client and the institution;
- ✓ Heavy concentration on agriculture and agriculture related activities exposes clients and institutions to multiple risks;
- ✓ Lack of reliable information about borrowers;
- ✓ Lack of market information and/or market access;
- ✓ Weak institutional capacity;
- ✓ "Crowding out" effect due to subsidies and directed credit;
- ✓ Lack of adequate or usable collateral (lack of assets, unclear property rights);
- ✓ Inhospitable policy, legal and regulatory frameworks;
- ✓ Undeveloped legal systems, inadequate contract enforcement mechanisms; and,
- ✓ Undeveloped or inadequate infrastructure.

Although this list relies mainly on experiences in developing countries, it provides a useful and comprehensive insight into the challenges facing European MFIs. Clearly, MFIs operating in rural contexts do not have the possibility to choose the challenges they will face and these challenges frequently reinforce and compound upon each other. The next section presents examples of European MFIs able to overcome some of the constraints mentioned above with the use of innovative methodologies and strategies.

## Good Practices of rural microfinance in Europe

Bearing in mind the constraints to rural microfinance, a compilation of 15 good practices from 10 countries covering both Western and Eastern Europe is presented.

According to Triodos Facet good practices are "all the strategies, plans, tactics, processes, methodologies, activities and approaches that are documented, accessible, effective, relevant and fundamentally accepted, developed by professional organisations and put into practice by well trained personnel. These measures have proven to be in keeping with the legislation in force, tested and put into practice, through research and experience. Consequently, they have proven to be effective and able to live up to expectations. It has also been established that they can be easily modified and improved according to context."

Given this definition, the good practices presented in this publication are examples of European MFIs supporting the entrepreneurial initiative in rural areas. To facilitate the extraction of common lessons learned, the good practices have been grouped into five categories:

1) communication and promotion,
2) partnership development,
3) products and services,
4) technological innovation and
5) value chain approach.

However, some cases span across multiple categories as they have a wider scope.

**Table 1**

**Good practices overview by category**

| Good Practice Category | Good Practice title | MFI | Country |
|---|---|---|---|
| Communication and Promotion | Adie mobile van to develop new areas | Adie | France |
| | EKI Business club | EKI | Bosnia and Herzegovina |
| Partnership development | Successful rural microfinance through collaboration between MFIs and banks | AgroInvest | Serbia |
| | Airdie agricultural and rural division | Airdie | France |
| | Microcredit Support Measure of the Government of the Azores | Cresaçor | Portugal |
| | Solidarity alliance for small business loans | Mag 2 Finance | Italy |
| Products and Services | Savings & Credit Associations model | Albania Savings and Credit Union | Albania |
| | Flexible agri-loan products | Horizonti Microfinance | Macedonia |
| | Relationship-based microcredit for rural clients | Kreativ Finanz Mecklenburg GmbH | Germany |
| | Client segmentation as a new approach in rural market | Savings Bank Moznosti | Macedonia |
| Technological Innovation | Internet-based loan Management System | Fejer Enterprise Agency | Hungary |
| | Tablet technology as a tool for improving service to small rural farmers | Opportunity Bank Serbia | Serbia |
| Value Chain approach | More than a loan | SIS Credit | Bulgaria |
| | Rural Employment Generation Activity | Partner Microcredit Foundation | Bosnia and Herzegovina |
| | Rural Empowerment and Economic Development through Value Chain Integrated Projects | Vision Fund | Albania |

*Source: EMN, 2015*

Indicates overall decreasing expenses, which might lead to an improvement of the financial sustainability in the sector.

Overall, an ongoing trend of decreasing impairment losses and operating expenses is observed, which might lead to improvements in financial sustainability.

## Outreach to target groups

The availability of data on the outreach of European MFIs to specific target groups and social performance indicators remains limited. The results of the survey indicate that women continue to be underrepresented as a target group (compared to the gender balance in the total population), although to a lesser extent than in the previous years. Information on outreach to ethnic minorities and immigrants is even scarcer.

With regard to rural populations, the available data show that only 24.3% of MFIs reported to serve rural populations in 2013. In general, the country reporting the highest share of loans disbursed to rural clients is Bosnia- Herzegovina with over 123m EUR in 2013 or 64% of the total value of microloans disbursed in the country. The ten institutions surveyed from Poland provide the second highest value of rural microloans disbursed with over 90m EUR in 2013 (46% of the total value of microloans). This outcome might be related to higher agricultural activities in those countries relative to the overall economy. The 17 surveyed Romanian MFIs disbursed more than 37m EUR in 2013 to rural clients, 36% of the total value of microloans disbursed by surveyed institutions in the country.

## Microfinancing models in the agriculture activities

Agriculture is an economic activity inherently risky. A variety of uncontrollable factors affect production and prices, which is reflected in highly variable economic yields of farms. In developing countries farmers do not have access to modern means of measurement and management of risk, such as agricultural insurance, futures or guarantee funds and post-emergency government assistance. Thus, farmers rely on different strategies and techniques "traditional" survival and risk mitigation. Most of them, however, are ineffective. Creditors from the formal banking system avoid microfinancing agriculture for a number of reasons: the high cost of service delivered, information asymmetries, lack of branch networks, perceptions of low profitability in agriculture, lack of collateral, high levels of poverty in rural areas, a low level of financial education of the farmers. But, mainly executives around the world say that banks do not finance agriculture due to the high risk - in the production and price - facing the sector. A farmer may be a good manager, capable and hardworking, with an excellent reputation for good payer when it comes to repayment, with guaranteed access to a market to trad the harvest and with the technical assistance of high quality, but a drought unexpected (or flooding) they may cancel these benefits. In the developing countries, with an agricultural market at a high level and with a fair distribution on integrating commercial, the great farmers can escape from this predicament because they have the ability to purchase insurance policies at a good price, can obtain funding or to liquidate assets quickly in a crisis caused by natural calamities, etc. Creditors from the formal financial institutions tend to exaggerate by using property as collateral primary buffer against the risk of default, which means it provides services to a limited segment of the farming community. For small and medium farmers, who constitute the vast majority of farmers who often have secured land - which is the preferred type of collateral, the value of the land may be insufficient to cover the loan.

## Conclusions and considerations regarding the importance of microfinance. Learning from good practices in Europe

A lesson learned is knowledge or understanding gained by experience that has a significant impact for an organization. It comes from solving real problems and the collection and dissemination of lessons learned could help to eliminate the occurrence of the same problems in future projects.

Following the presentation of 15 good practices that allowed us to explore innovative approaches and methodologies in rural microfinance, the present chapter tries to identify lessons learned that could assist European MFIs facing the same challenges.

As the provision of rural microfinance requires MFIs to adopt innovative responses in order to reach rural entrepreneurs in an effective and sustainable way, practitioners might find these lessons learned useful to design future strategies.

Taking stock of the good practices collected, a set of common lessons learned emerge:

- ✓ A value chain approach facilitates the adoption of innovations by clients and increases the profitability of rural businesses. For MFIs, it is important to develop market linkages between businesses, suppliers and final markets. In fact, contractual arrangements between producers and sellers and/ or suppliers reduce price risk, enhance production quality and helps guarantee repayment. In order to be more effective, these arrangements could combine technical assistance and provision of specified inputs on credit.
- ✓ The development of partnerships and alliances with existing institutions and infrastructure may facilitate increased outreach and the provision of diverse services, thus ensuring better conditions for rural clients. Collaboration with governments and local NGOs/associations, partnerships with commercial banks or the development of innovative alliances including new stakeholders (e.g. rural entrepreneurs' clients) can be beneficial to better reach out and cater to the needs of rural entrepreneurs.
- ✓ The development of flexible products and services tailored to the needs of rural farmers/entrepreneurs is crucial for rural outreach. Flexible disbursement, repayment schedules and guarantee schemes allow MFIs to attract more clients. Nevertheless, the terms and conditions of the loans should not compromise MFI sustainability (portfolio quality, liquidity management, etc.). A key role in assisting rural clients to define loan terms and conditions is played by the loan officer, who should be carefully chosen from rural areas, well trained and visit clients in the field.
- ✓ Technology reduces transaction costs for both lenders and borrowers and creates the potential for sustainable rural finance. MFIs introducing technological innovations into their operations are able to reduce the higher transportation and communication costs found in rural areas. The training and commitment of loan officers and back office staff are critical for a successful introduction of non-traditional tools.

Before reviewing the lessons learned for each good practice, we want to stress the heterogeneous context of MFIs operating in rural Europe. European MFIs work across a number of countries that differ in terms of regulatory framework, governmental welfare policies and public support to the microfinance sector, level of socio- economic development, rural context inherent features, infrastructures, etc. Due to this variety of factors (and the various institutional types from small NGO to established bank), the application of some of the lessons learned out of the original context could be difficult.

Keeping this in mind the following table presents the full set of lessons learned for each good practice collected.

**Table 2**

**Lessons learned**

| MFI | Good Practice | Category | Lessons Learned |
|---|---|---|---|
| Adie (France) | Adie mobile van to develop new areas | Communication and Promotion | The temporary presence of loan officers in rural areas not covered by MFI branches tests customer demand and opens the possibility to seize promising new market opportunities. |
| | | | The presence of loan officers in underserved rural areas via mobile vans improves MFI visibility, builds trust and confidence and allows the MFI to reach strategic locations at low cost. |
| AgroInvest (Serbia) | Successful rural microfinance through collaboration between MFIs and banks | Partnership development | In the absence of national regulation for the provision of microfinance, MFI and commercial banks partnerships allow for outreach to the rural unbanked. |
| | | | Such partnerships are successful only if both sides acknowledge, understand and respect the differences in organisational cultures, and are fully aware of their individual added values. It also requires individual champions on each side. |
| Airdie (France) | Airdie agricultural and rural division | Partnership development | A partnership approach involving regional government, MFI and local social economy organisations allows the provision of flexible loans at favourable conditions (zero interest rate) supported by business development services. In the long run, this approach should aim to facilitate the rural entrepreneur's access to the mainstream banking sector. |
| | | | Demonstrated public sector savings on unemployment benefits allows the MFI to create solid and fruitful partnerships with public authorities. |
| Albanian Savings & Credit Union (Albania) | Savings & Credit Associations model | Products and Services | Savings and Credit associations have strong social rooting in rural, local communities allowing the implementation of social guarantees (a member guaranteeing for other member). This methodology lets the MFI overcome the absence of collateral and increases the financial inclusion of rural clients. |
| | | | Membership-based organizations can facilitate rural access to financial services and be viable in remote areas. |
| Cresaçor (Portugal) | Microcredit Support Measure of the Government of the Azores | Partnership development | A partnership approach involving the mainstream financial sector, regional government and social economy sector allows the provision of favourable loan conditions and a set of comprehensive, tailored services fostering entrepreneurship in rural areas. |
| | | | The support of a qualified multidisciplinary team during the entire loan cycle empowers the rural entrepreneur and enhances the sustainability of the business proposal. |

<table>
<tr><td rowspan="2">EKI<br>(Bosnia and Herzegovina)</td><td rowspan="2">EKI Business club</td><td rowspan="2">Communication and Promotion</td><td>The advertising of business opportunities and the creation of connections among MFI customers could improve the potential market for rural clients.</td></tr>
<tr><td>Rural clients need to be connected across traditional communication channels. Future adoption of the online tool by rural clients should be facilitated by the MFI.</td></tr>
<tr><td rowspan="2">Fejér Enterprise Agency (Hungary)</td><td rowspan="2">Internet-based loan Management System</td><td rowspan="2">Technological Innovation</td><td>Economies of scale in the provision of online services allows MFIs to reduce costs and reach rural clients in the most remote areas not covered by branches.</td></tr>
<tr><td>Technology can help reduce the higher transportation and communication costs found in rural areas</td></tr>
<tr><td rowspan="2">Horizonti microfinance (Macedonia)</td><td rowspan="2">Flexible agri- loan products</td><td rowspan="2">Products and Services</td><td>The development of flexible products tailored to the needs of small, rural farmers allows MFIs to attract more clients and retain those who have difficulties in managing equal instalment schedules while keeping PaR30 under control.</td></tr>
<tr><td>In order to be successful, the introduction of flexible agri- products should be preceded by a thorough analysis of the rural client's business, piloted in selected branches, backed by robust and scalable MIS and continuously updated through client feedback.</td></tr>
<tr><td rowspan="2">Kreativ Finanz Mecklenburg GmbH (Germany)</td><td rowspan="2">Relationship-based microcredit for rural clients</td><td rowspan="2">Products and Services</td><td>The provision of personalized and flexible loans, together with close monitoring and tailored support procedures, builds trust and confidence in the MFI and reduces rural clients' risk of default.</td></tr>
<tr><td>Loan terms and conditions that are adjusted to accommodate cyclical business (and exceptional) needs should not compromise MFI sustainability.</td></tr>
<tr><td rowspan="2">Mag 2 Finance (Italy)</td><td rowspan="2">Solidarity alliance for small business loans</td><td rowspan="2">Partnership development</td><td>Innovative alliances between small farmers/producers and their clients are emerging. In this context, small farmers/ producers could be financed by their clients together with the MFI.</td></tr>
<tr><td>Co-financing schemes allow MFIs to improve the size and conditions of the loan, thereby reducing the level of risk borne by the institution.</td></tr>
<tr><td rowspan="2">Opportunity Bank (Serbia)</td><td rowspan="2">Tablet technology as a tool for improving service to small rural farmers</td><td rowspan="2">Technological Innovation</td><td>Adoption of technology that cuts loan processing time (e.g. tablets) increases loan officer productivity and reduces travel time and expenses to reach rural clients in the field.</td></tr>
<tr><td>Faster loan processing technologies should be backed by robust and scalable MIS, a suitable loan methodology, quality portfolio and comprehensive data on clients.<br>The training and commitment of loan officers and back office staff is also crucial for the successful introduction of non-traditional loan processing tools</td></tr>
</table>

| | | | |
|---|---|---|---|
| Partner Microcredit Foundation (Bosnia and Herzegovina) | Rural Employment Generation Activity | Value Chain approach | A comprehensive value chain approach based on the development of innovative agri-products, the provision of technical assistance, the selection of qualified suppliers and the development of market linkages facilitates the adoption of new and more profitable agricultural practices by rural clients. |
| | | | The role of technical advisors is fundamental in raising awareness among rural farmers on new crops and techniques. Brochures and videos on the advantages of new techniques could also be beneficial. |
| Savings Bank Moznosti (Macedonia) | Client segmentation as a new approach in rural market | Products and Services | The segmentation of the agricultural clients (e.g. according to their level of income and asset ownership) and the development of tailored products for each segment enables clients to develop their business and prevents over-indebtedness. If well implemented, client segmentation can also improve MFI portfolio quality. |
| | | | Segmentation of the target group policy should be backed by solid MIS, loan management procedures and credit committees. |
| SIS Credit (Bulgaria) | More than a loan | Value Chain approach | The provision of a wide range of integrated consultancy and financial services could complement the disbursement of the loan, allowing clients to boost the efficiency and profitability of their businesses. |
| | | | A value chain approach that connects rural clients with urban markets (e.g. creating cooperatives to sell products in the cities) could guarantee better trading conditions for clients and a higher repayment rate for the MFI. |
| Vision Fund (Albania) | Rural Empowerment and Economic Development through Value Chain Integrated Projects | Value Chain approach | The improvement of farmers' business and entrepreneurial skills, the supply of technical expertise and the development of a value chain strengthening farmers' linkages with the final market improve the clients' repayment rate and business profitability. |
| | | | In order to effectively fight extreme poverty in rural areas, partnerships between socially oriented MFIs and non-profit organisations to support very poor households could be developed. |

*Source: EMN, 2015*

In short, activity of the risk management need to be improved dramatically so that agricultural finance can flourish. Steps have been made in recent years by reducing information problems and transaction costs through peer-group lending. However, uncontrolled risk continues to be a major impediment to the development of rural financial markets effectively. Public-private efforts should be renewed and larger amounts of investment will be needed at various levels to address these issues. At the farmer level, the governments should stimulate the recovery of agricultural extension services while farmers must become financially literate in so they can take some risks. Governments, donors, and insurance companies should work together to develop yield-insurance products that are cheap, durable and designed properly. Governments, stock exchanges and financial institutions also must work for the development of structured financial products, and other hedging instruments to reduce price risk. I confess that personal concerns on issues related to financial and social inclusion of SMEs in rural areas, especially small farmers dates back to when I started to develop some investments and support services in rural areas. In most cases, potential investors and farmers were connected to the market economy system only through small grants, European and / or national granted per area or per animal. Starting from the "main priorities and measures for the development of the regions selected from the such strategies for Regional Development Fund, integrated into the structure of the priority objectives and appropriate measures contained in the National Development Plan" and linking with microfinance measures in the context of the nowdays european economy, I believe that the proposed topic through research conducted within its framework, could help to develop a model to support microfinance in rural Romanian. Global measures taken by world leaders at the Summit in Seoul November 11 -12, 2010, namely those on balanced growth with direct impact and corporate social responsibility makes us say that increasingly more world leaders concerned with creating models dfor financial and social inclusion of the poor. Also in this summit were discussed topics related to the reform of international financial institutions, strengthening the global financial safety mechanisms and, in a separate session the new G20 agenda on development. In carrying out and rationale of this work I start from studies and scientific works of the most awarded personalities in Romania, whose work examines with great probity fundamental problems of Romanian sustainable development in rural areas. I will announce a few of these studies and themes: Romania's national agricultural project after two and a half decades of "reform, restructuring and adjustments"; Security and the nation's food balance; The main challenges of the countryside; The performance restrictive factors of Romanian agri-food economy: agro disintegration, disruption between agricultural production and food processing, agro-food chains inaccuracies in operation, subsistence and semi-subsistence farms domination, promoting forms of financial support that stimulate productive performance; Developments in post-revolutionary agrarian structure; Conception erros in agricultural settlement on the principles of market economy; The characteristics and current structure of rural areas; The governmental agricultural support policies; Initiative for a new philosophy of Romanian rural development; 10 years when the food sector and development of Romanian rural area was mainly supported by EU funds: what could be the consequences?

Sooner or later, the romanian financial system will be forced to align to the practices of countries with a developed agriculture microfinance system, to address new innovative models in microfinance through modern means at current moment. After a period of searching and calling some improvisation, I believe that we are at the stage where we are obliged to approach decisions leading to the reestablishment of new principles of institutions to provide lending to local actors and sectors vital to the economic consolidation of settlements and human welfare. It is about the establishment of institutions specialized in microfinance to fund economic units with legal personality: non-bank financial institutions in rural areas, which crediting legal entities and individuals active: institutions that microfinance only educational and health institution or rural area. The capital required to set up such institutions should be ensured through government financial contributions for which payment to be repaid in time. Another extremely important in creating innovative models of microfinance is given continuous training of human capital involved in providing financial services in rural areas and in the financial education of those who accessed microcredit. At the European and global level decision makers currently trying to accomplish Programme for microcredit financing in rural areas, concerns and decisions that may directly influence the development of activities in rural areas through access to microcredit. To achieve this goal of setting an innovative and coherent microfinance rural environment should be started from what was good in the lending system areas in Romania in the interwar period, especially from innovative models existing today in some countries of the Union European and creating our own innovative models of microcredit.

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