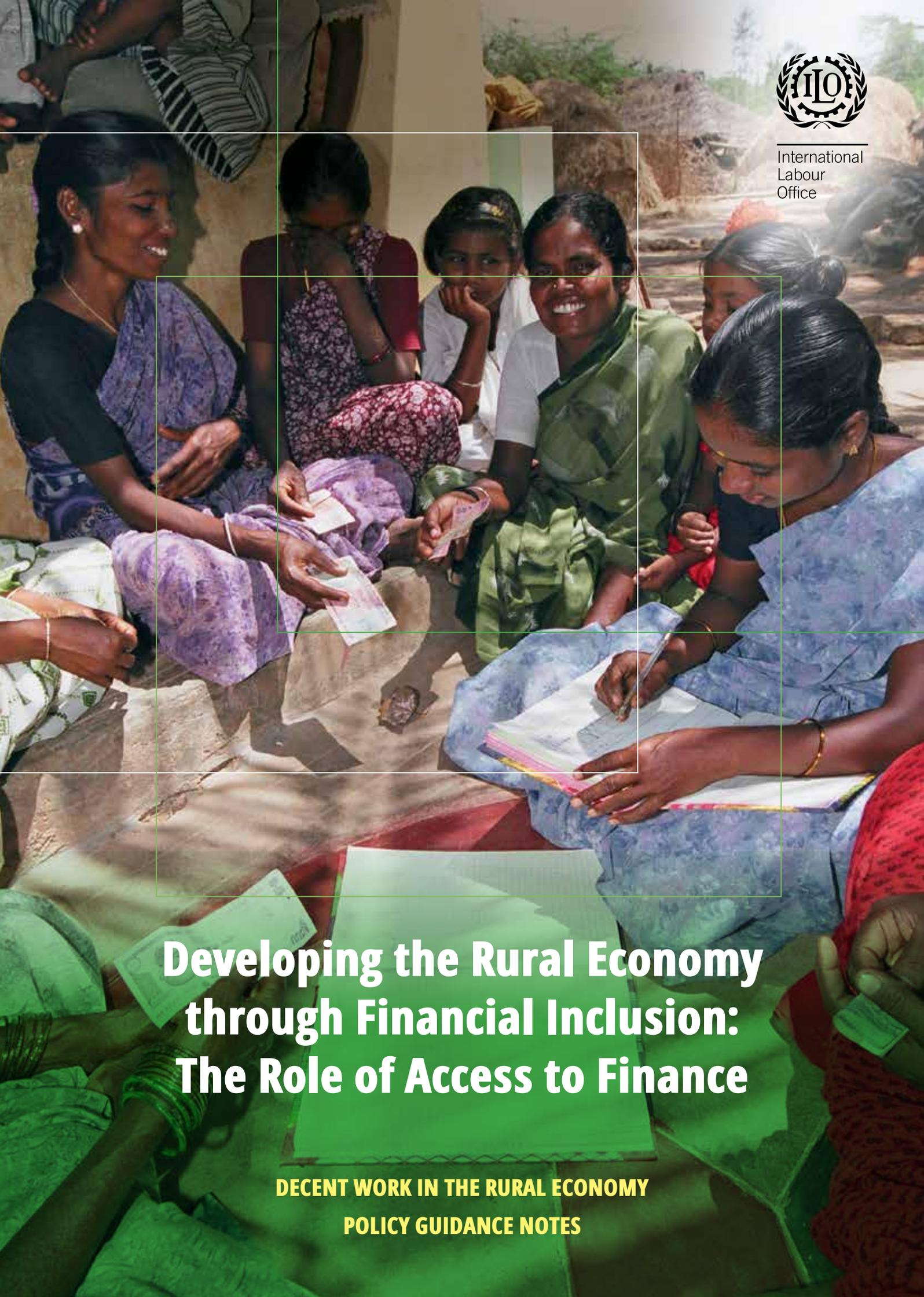


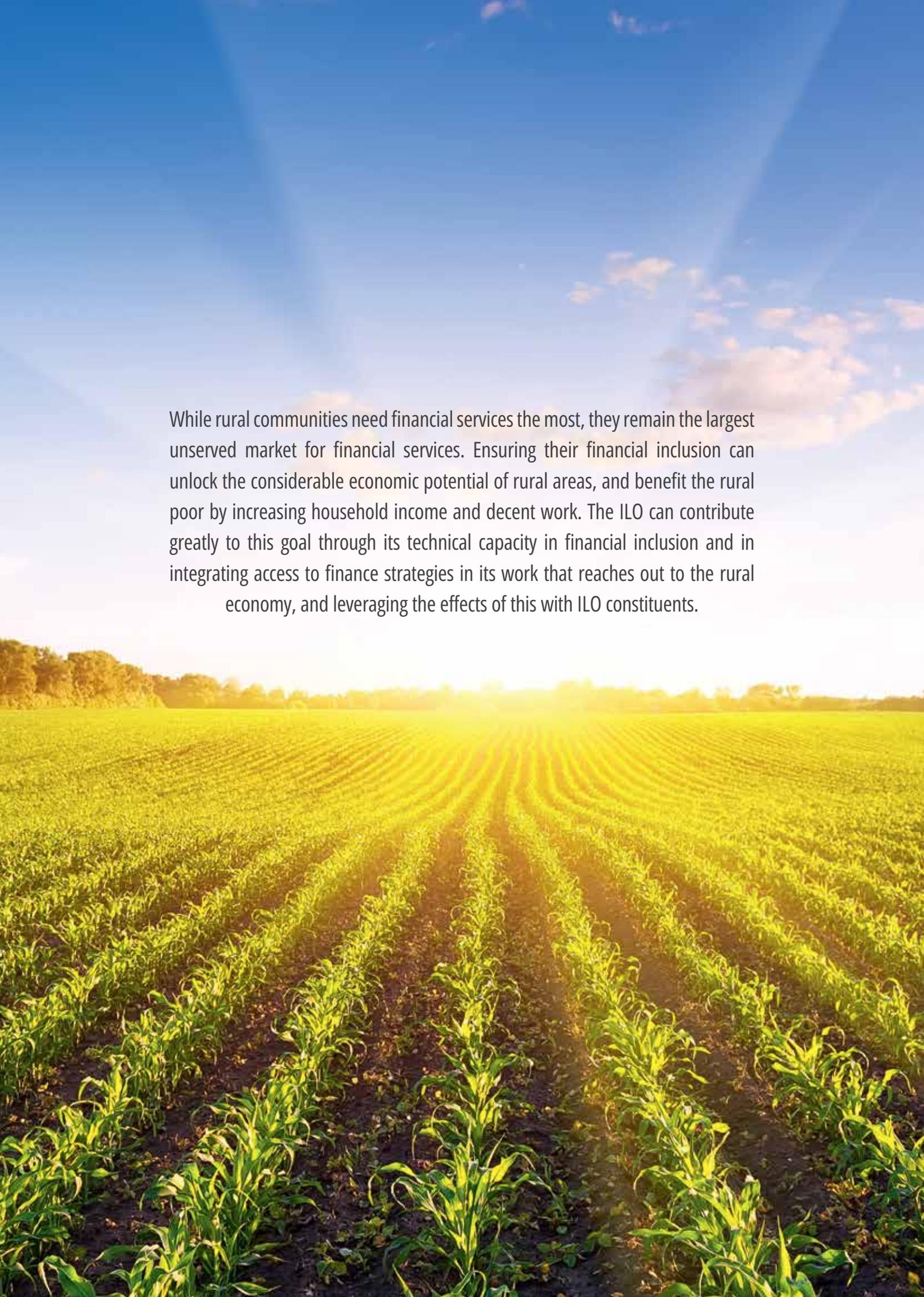


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Developing the Rural Economy through Financial Inclusion: The Role of Access to Finance

**DECENT WORK IN THE RURAL ECONOMY
POLICY GUIDANCE NOTES**

A vibrant agricultural field of young corn plants under a bright, sunny sky with a lens flare effect. The sun is low on the horizon, creating a strong glow and lens flare that radiates across the sky. The corn plants are in the foreground, growing in neat rows that recede into the distance. The sky is a clear, bright blue with some light, wispy clouds. The overall scene is bright and optimistic, representing rural agriculture.

While rural communities need financial services the most, they remain the largest unserved market for financial services. Ensuring their financial inclusion can unlock the considerable economic potential of rural areas, and benefit the rural poor by increasing household income and decent work. The ILO can contribute greatly to this goal through its technical capacity in financial inclusion and in integrating access to finance strategies in its work that reaches out to the rural economy, and leveraging the effects of this with ILO constituents.

1. Rationale and justification

The nexus between a sound financial system, economic growth and development has been researched for a long time and numerous theoretical and empirical studies show a positive relationship.¹ This is no different for developing the rural economy, and basing such development on decent work. However, rural communities are highly underserved by financial services. According to Global Findex data, 62 per cent of the world's adult population had an account at a formal financial institution or had access to mobile money services in 2014.² The data shows a gap between women and men with 58 per cent and 65 per cent respectively. The geographic regions with the lowest level of financial inclusion are the Middle East and North Africa, and Sub-Saharan Africa (14 per cent and 34 per cent respectively). While the 2014 data does not allow for a distinction between access in rural and urban areas, earlier data from 2011 found a considerable difference with only 46 per cent of adults in rural areas having access in contrast to 58 per cent in urban areas.³

People living in rural areas need access to financial services for a range of productive (asset building, working capital) and protective (mitigating risk exposure, including health issues) purposes: to purchase stock, equipment, agricultural inputs; to maintain infrastructure; to contract labour for planting/harvesting; to transport goods to markets; to make/receive payments; to manage peak season incomes to cover expenses in the low season; to invest in education/shelter/health; or to deal with emergencies.

Traditionally, formal financial institutions (e.g. commercial banks, rural or agricultural development banks) have avoided or failed to offer sustainable services in rural areas. This exclusion restrains rural communities from unleashing their potential:

- Transaction costs in rural areas, especially in remote areas, are high due to low population density, lack of

¹ See R.W. Goldsmith: *Financial structure and development*, New Haven, Connecticut, Yale University Press, 1969; R. McKinnon: *Money and Capital in Economic Development* Washington, DC, The Brookings Institution, 1973; R.G. King and R. Levine: "Finance and Growth: Schumpeter might be right", in *The Quarterly Journal of Economics* (1993, August), pp. 717-737; R. Levine: "Financial Development and Economic Growth: Views and Agenda", in: *Journal of Economic Development*, (1997, Vol. XXXV), pp. 688-726; R. Levine, N. Loayza and T. Beck: "Financial Intermediation and Growth: Causality and Causes", in *Journal of Monetary Economics* (2000, v. 16, n1), pp. 31-77; T. Beck: *The Role of Finance in Economic Development: Benefits, Risks, and Politics*, Tilburg, Netherlands, European Banking Centre Discussion Paper No. 38, 2011; and others.

² World Bank: *Global Findex*, www.worldbank.org/globalfindex [accessed 16 April 2015].

³ In addition to the difference in reporting rural vs. urban data, the 2011 and 2014 Global Findex data define account ownership differently: the older data considers having an account at a financial institution (bank or another type of financial institution, such as a credit union, cooperative, or microfinance institution) while the newer data considers having an account either at a financial institution or through a mobile money provider. This redefinition contributed to a reported increase between the two waves of data.

infrastructure (communications, electricity, transport) and small average transaction amounts. This makes financial services expensive. Prohibitive transaction costs also discourage people from depositing savings, thereby depriving households of an opportunity to build financial assets.

- Legal systems that do not ensure marketable property rights contribute to weak collateral and contract enforcement mechanisms that further limit access to finance. As a consequence, products such as long-term financing hardly reach rural areas.
- Levels of financial literacy are often low in rural communities. This prevents households and businesses alike from building effective risk management strategies and, for example, understanding how insurance works and why premiums need to be paid regularly without a timeline for pay-outs.
- Thus, informal or semi-formal financial institutions – as well as alternative providers like traders or input suppliers, or delivery channels like mobile phone companies – have become major players in financial services provision. However, these informal providers often have weak institutional and managerial capacity and offer only a narrow range of financial services, often without regulation. Moreover, operating in isolation from the financial system has let some of these providers charge steep and sometimes even usurious interest rates.
- Climate change is impacting the rural economy most severely. Rural communities cannot cope with and adapt to growing incidences of drought, flooding or storms without access to insurance or emergency loans to deal with these sudden shocks, or to long-term finance for venturing into less risk-exposed businesses.

In light of these problems, many developments have taken place in rural areas (Box 1), bringing about new opportunities for financial service provision.

BOX 1: Developments in financial service provision in rural areas

- Migration to urban or neighbouring rural areas increases remittance flows among family members, and thus also the demand for efficient money transfer services.
- Post Office Savings Banks are emerging as significant providers of deposit services in rural areas, for example in Kenya, South Africa and the United Republic of Tanzania.⁴
- Member-owned financial institutions such as Self-Help Groups (SHGs), Village Savings and Loan Associations (VSLAs), Savings and Credit Cooperatives (SACCOs), and Credit Unions are increasing in numbers. Cooperatives can use cross-subsidization, and federations of SACCOs offer economies of scale to members, as in the case of Mixtlan SACCO and UNISAP Federation in Mexico.⁵ In Burundi, credit unions have recorded more deposit and loan accounts than commercial banks.⁶
- A number of microfinance institutions (MFIs) have increased their rural operations (e.g. ACLEDA Bank in Cambodia⁷), while market pressures have driven others to terminate their rural operations. While microfinance has increased the access to finance of poor rural households, it is facing challenges for providing financial services to small farmers.⁸
- Major differences exist between high income and developing economies in insurance provision. In 2011, developing countries counted 0.5 insurance policies per adult while high income countries had 2.5.⁹ These figures are far lower especially in rural areas of developing countries. At the same time, government-supported schemes and Mutual Based Associations are increasing outreach. In India, 37 million families have been enrolled in the National Health Insurance Programme (RSYB)¹⁰ and 20 million farmers in the government's crop insurance scheme. In the Philippines, 80 per cent of health insurance is offered by Mutual Based Associations.
- Insurance can help increase farmers' asset base and productivity: evidence suggests that insurance against primary catastrophic risks enables farmers to increase expenditure on their farms and make riskier choices (e.g. purchasing high technology inputs).^{11,12}
- Use of electronic technology is revolutionizing the provision of rural financial services, including insurance, and is driving down costs of handling small transactions.¹³ Branchless banking allows financial services to reach formerly untouched clients. Mobile phones or biometric smart cards are helping agents enrol clients, while clients use them for money transfers. RFID devices injected behind the ears of animals help to identify the insured animal at the time of a claim, and thus facilitate claims procedures. Furthermore, the use of satellites makes index insurance scalable.
- Financing through value chains can reduce risks of agricultural finance and enhance creditworthiness of small farmers, and has been successfully implemented in countries such as Costa Rica, India, Malawi, Mexico, Tanzania and Uganda.¹⁴
- Under certain conditions, contract farming has proven to be effective in creating creditworthiness and helping raise incomes of small farmers all over the world.¹⁵
- With more than 300 impact investment funds, impact investment has gained momentum in recent years and is expected to continue growing.¹⁶ Of the US\$8.8 billion committed by impact investors in 2012, 6.6 per cent were allocated to the agricultural sector.¹⁷

⁴ G. Nagarajan and R. Meyer: "Rural Finance Today", in *Finance for the Poor* (2006, Vol. 7, No. 4).

⁵ M. Hirschland et al.: "Financial Services in Remote Rural Areas: Findings from Seven Member-Owned Institutions", in *Reaching the Hard to Reach: A comparative study of member-owned financial institutions in remote rural areas* (Antigonish, Nova Scotia, Coady International Institute, 2008).

⁶ O.P. Ardic, K. Imboden and A. Latortue: *Financial Access 2012: Getting a more comprehensive picture* (Washington, DC, CGAP, Reports by CGAP and its partners No 6, 2013).

⁷ Nagarajan and Meyer, 2006, op. cit.

⁸ M.K. Sharma and J. Zhang: "Agricultural Finance for Sustainable Development, Expanding Agricultural Market Opportunities & Promotion of disadvantaged small farmers and MSMEs", in *Background paper for Workshop, Enhancing Exports' Competitiveness Through Value Chain Finance South Africa*, 15-16 Sep. 2012.

⁹ Ardic et al., 2013, op. cit.

¹⁰ Government of India: *Rashtriya Swasthya Bima Yojana Overview: Enrolment of Beneficiaries*, www.rsby.gov.in/overview.aspx [Accessed 17 April 2015].

¹¹ D. Karlan et al: *Agricultural decisions after relaxing credit and risk constraints* Geneva, ILO, Microinsurance Innovation Facility Research Paper 23, 2012.

¹² Y. Liu et al: *Borrowing from the insurer: An empirical analysis of demand and impact of insurance in China* Geneva, ILO, Microinsurance Innovation Facility Research Paper 34, 2012.

¹³ Nagarajan and Meyer, 2006, op. cit.

¹⁴ Sharma and Zhang, 2012, op. cit.

¹⁵ M. Prowse: *Contract Farming in Developing Countries - A Review* Paris, Agence Française de Développement, À Savoir No 12, 2012.

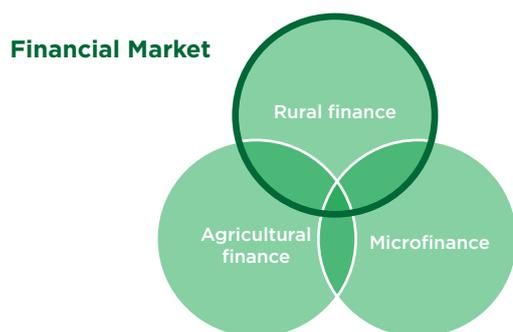
¹⁶ M. El-Zoghbi and H. Gonzalez: *Where Do Impact Investing and Microfinance Meet?*, Consultative Group to Assist the Poor, 2013.

¹⁷ This figure corresponds to agricultural investment in both urban and rural areas.

2. Scope and definitions

This document refers to Rural Finance as the provision of financial services in rural areas that support a wide range of economic activities and households of various income levels. It includes financial services that support agricultural as well as non-agricultural activities. In contrast, Agricultural Finance is the provision of financial services that support all agriculture-related activities, including those of processors, distributors and exporters who may be located in rural, urban or peri-urban areas. Microfinance means the provision of small-scale financial services that include savings, insurance, loans (productive, emergency, consumption), leasing products, money transfer services, or guarantees. Figure 1 summarizes where the above definitions overlap and shows the section relevant for the rural economy.

Figure 1: Scope of finance in the rural economy



Source: IFAD (2010): *Decision Tools for Rural Finance*.

Within the above framework, value chain finance plays an important role in the rural economy, as distorting the flow of financial products and services at any point in the value chain can make the whole chain collapse. Directly related to value chain finance is contract farming, as a form of vertical integration in value chains in which a firm lends for example agricultural inputs like seeds or fertilizer to a farmer in exchange for purchasing rights over the specified crop. Similarly, impact investors that advance finance to lead firms with the intention of improving the social and environmental impact while also obtaining a financial return are part of the value chain finance universe.

All financial services in the rural economy must be delivered on a sustainable basis to ensure that services are available in the long term. However, financial services frequently need to be accompanied by non-financial services such as

financial education, business development and agricultural extension services, or linkages to local health organizations to empower rural areas to benefit from access to finance. If not empowered, access to finance can put vulnerable populations at even higher risk and lead to over-indebtedness.

Target groups

Access to finance can be a powerful tool to develop the rural economy. It is especially important for the working poor – including migrant workers, home workers and smallholder farmers – to protect against risk and to smooth variations in consumption in their households, to increase their income and to invest in their businesses. But farm enterprises and agriculture-based industry are also in need of working capital, insurance coverage, leasing, factoring, loan guarantees, and venture capital or impact investments, just as are non-farm enterprises who find it difficult to access financial markets and resources that would allow them to secure decent work. They are the ultimate beneficiaries of ILO work aimed at enhancing access to finance.

Role of ILO constituents

ILO constituents have a role to play in fostering access to finance for rural communities. Governments have a crucial role in providing enabling policies at the national level, improving the financial infrastructure and promoting rural finance through dialogue with financial service providers. Both workers' and employers' organizations can use their networks to facilitate access to financial services especially for underserved members, recognizing their needs and how to better satisfy them. At the same time, this could help strengthen their institutional capacities.

Besides the constituents, the ILO needs to engage with financial sector players if it wants to unlock the potential of the rural economy. These players include Ministries of Finance, of Labour and Agriculture, Central Banks, Bankers' and Insurers' Associations, Associations of Microfinance Institutions, and financial service providers like commercial banks, state-owned banks, finance companies, insurance companies, postal financial service providers, microfinance NGOs, community-based organizations or credit unions, but also alternative providers and delivery channels like traders or mobile phone companies.

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3. The ILO's approach

The ILO works towards developing the rural economy by improving access to finance through:

- capacity-building of constituents (governments, workers' and employers' organizations) and financial sector players as well as ILO staff,
- functioning as a help desk for requests from constituents and ILO staff, and for monitoring the quality of ILO interventions,
- promoting innovation through action-oriented research and knowledge management, and
- promoting the adoption of decent work standards in impact investments in the rural economy.

To build the capacity of constituents and financial sector players, the ILO has developed a range of training materials on topics like financial education¹⁸, management of microfinance institutions¹⁹, how to create awareness on insurance, among others. The materials are available in different languages including English, French, Arabic, Bahasa Indonesia, Khmer, Nepali, Mongolian, Romanian and are adapted to particular target groups like youth, women and migrants and to national contexts. For example, financial education materials are available for Cambodia, Congo, Indonesia, Mauritania, Mongolia, Nepal, Republic of Moldova, Senegal, and others. Upon request, the ILO can also engage in specific capacity-building of constituents.

Through the Microfinance for Decent Work action research programme (MF4DW)²⁰, the ILO studied the impact of innovations in microfinance on poor households and their businesses from 2008 to 2012. MF4DW worked with 16 microfinance institutions across the world on reducing child labour, improving working conditions and risk management strategies, encouraging formalization or increasing job creation. The impact evaluations that accompanied the implementation of the innovations show that microfinance institutions can indeed contribute to improving the decent work status of their clients (see example in section 4). Based on the positive results, the programme intends to go into its second phase, in building the capacity of stakeholders to

replicate successful innovations or to facilitate the process to do so.

Acknowledging that insurance is vital to social and economic development, the ILO Impact Insurance Facility²¹ has been working since 2008 to increase the availability of quality insurance for the developing world's low-income families, the majority of whom live in rural areas, to help them guard against risk and overcome poverty. The Facility enables the insurance industry, governments, and their partners to realize the potential of insurance to reduce vulnerability, promote stronger enterprises and facilitate better public policies. By building on past achievements and lessons learned, the Facility works to stimulate innovation and to transform knowledge into practice (see examples in section 4).

Through its engagement in the Access to Insurance Initiative, the ILO is active in policy dialogue and builds the capacity of policy-makers for promoting access to insurance for vulnerable groups.

Through the collaboration with the Africa Agriculture and Trade Investment Fund since 2012, ILO, together with UNEP, collects evidence on how large-scale financial service providers can sustainably integrate social concerns – including decent work considerations – into their funding decisions. The lessons learned from this collaboration will enable other financial service providers to improve assessing the social and environmental impact of their investments.

ILO comparative advantage

While the ILO is a niche player in improving access to finance to help develop the rural economy, it is a recognized actor that is known to have strong services on offer:

- Especially ILO's knowledge management and dissemination services for more inclusive expansion of insurance – be it research, technology, product design, innovative delivery channels, market development or client value – are at the forefront of insurance development through the work of the Impact Insurance Facility.
- Due to its tripartite structure, the ILO has unique entry points to facilitate access to finance in rural areas (e.g. trade unions, employers' organizations) that other international organizations are not able to mobilize. This allows the ILO

¹⁸ Enterprises Department: *Financial Education*, ILO, 2015, www.ilo.org/empent/areas/social-finance/WCMS_206163/lang-en/index.htm [Accessed 17 April 2015].

¹⁹ International Training Centre – ILO: *Making Microfinance Work*, <http://mmw.itcilo.org/en/home/> [Accessed 17 April 2015].

²⁰ ILO Social Finance Programme: *Microfinance for Decent Work: Action Research*, 2015, www.ilo.org/employment/areas/social-finance/WCMS_168033/lang-en/index.htm [Accessed 17 April 2015].

²¹ ILO: *Impact Insurance Facility*, 2015, <http://www.impactinsurance.org/es> [Accessed 17 April 2015].

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to leverage its outreach in rural areas without numerous small-scale direct interventions.

- The ILO's management training programme for microfinance institutions is well established and well-known. While it already addresses challenges of rural finance, there is scope to intensify discussion and enrich it with more in-depth research results.

- The ILO Microfinance for Decent Work action research programme has established sound evidence of what microfinance institutions can do to improve the decent work status of clients, including in rural areas.
- The ILO's joint work with UNEP on supporting large-scale financial institutions to improve their social and environmental management systems has proved to be an area of high potential for future work.

4. The ILO's experience to date

The ILO has been working on improving access to finance since 1991, and has amassed many insights on developing the rural economy during those 20+ years. Below are some recent examples.

Microfinance for Decent Work: Experience of NWTF's Individual Emergency Fund – Philippines

In the frame of the Microfinance for Decent Work action research programme, the Negros Women for Tomorrow Foundation (NWTF) in the Philippines set out to address vulnerability and risk management of their mostly rural clients. NWTF did so through the introduction of an Individual Emergency Fund, which essentially is a voluntary savings product that can be drawn on in emergency situations. The account could be augmented by an interest rebate that clients receive if they repay outstanding loans on time. Through the combination of these two features, NWTF hoped i) to boost the availability of safety nets to clients in times of emergencies, and to lessen their tendency to borrow beyond their means, withdraw funds from business operations or suspend essential household expenses, and ii) to decrease the overall portfolio at risk for the organization.

The evaluation of the product showed a strong positive impact on reducing multiple borrowing and the risk of over-indebtedness of clients. For example, the study observed a 22 per cent reduction in clients borrowing to repay another loan, a 7 per cent decrease in repayment difficulties, and a 7 per cent decrease in borrowing from formal sources.

When the ILO project ended, NWTF continued to collaborate with the research partner to modify the product and further increase its impact.²²

Insurance Funds in Rural Mexico – AMUCSS – Mexico

Given the vulnerability and importance of the agricultural sector, the Mexican government has been providing different forms of insurance mechanisms since the 1960s. In 1998, through its national insurance institution (Agroasemex) the government developed an agricultural insurance scheme called Fondos de Autoaseguramiento (self-insurance funds). The scheme leveraged existing farmers' groups. While small-scale farmers are not excluded from this scheme, their participation is hindered by their organizations' small size.

Seeing the difficulties faced by these farmers in accessing the existing government scheme, the Red Solidaria de Microseguros Rurales (RedSol), an insurance intermediary created by the Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS)²³, established a fund to aggregate a sufficient number of small-scale farmers to form a group that could operate on a financially sustainable basis under the existing government scheme. For the season 2012-2013, cover was extended to 1,985 smallholder farmers, insuring a total of 2,797 hectares that were primarily used for maize, coffee and peanut farming. The product included options to cover droughts, floods, hail, low temperatures, frost, hurricanes, cyclones, high winds and tornados.

²² ILO Social Finance Programme: *Microfinance for Decent Work: Innovation Partners*, Geneva, 2011, www.ilo.org/employment/WCMS_168044/lang-en/index.htm [Accessed 17 April 2015].

²³ AMUCSS is a not-for-profit organization that serves a network of rural financial institutions in the areas of treasury services, training, microcredit and savings methodologies, microinsurance, remittances, food security and financial education.

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Piloting Index-Based Livestock Insurance in Marsabit - ILRI- Kenya

In recent years, droughts in Kenya's arid and semi-arid lands have become increasingly severe, with devastating effects on the local population. To mitigate the effects, the ILO Impact Insurance Facility has supported the International Livestock Research Institute (ILRI) since 2010 in carrying out a project on Index-Based Livestock Insurance (IBLI). The project has covered activities around marketing and communication, training and extension, and insurance operations and delivery channels. It also piloted an insurance product that provides compensation in the event of drought-related livestock losses in the Marsabit District of Northern Kenya.

A preliminary appraisal of the impact of the insurance on household well-being suggests that there is a difference between the expectations of insured and uninsured households when dealing with drought. Since insured households expect to receive a pay-out in the near future, and intend to use the bulk of this money to buy food and livestock, most of them anticipate not having to depend on stringent coping strategies (e.g. reducing their meals, selling livestock), as opposed to their uninsured counterparts.²⁴

A Public-Private Partnership to economically empower HIV-vulnerable populations along transport corridors in Zimbabwe

The partnership between the ILO, the Ministry of Labour of Zimbabwe and SEDCO (Small Enterprise Development Corporation) started in 2011. The ILO launched a programme along the transport corridors in Chirundu, Kotwa, Nyamapanda,

Beitbridge and Ngundu, operating at two levels: i) providing HIV prevention and care services for transport workers and populations operating along these corridors, including rural communities; and ii) providing business-related services to vulnerable populations to start or improve their business, form cooperatives and provide access to financial services in order to improve their resilience against HIV's impact.

As a result of the partnership, 10 Savings and Credit Cooperatives (SACCOs) were formed, involving more than 500 families and more than 1,000 beneficiaries. 115 people living with HIV joined SACCOs, partly thanks to the community's acceptance.

Building capacity for responsible investments in agriculture - Collaboration with the Africa Agriculture and Trade Investment Fund (AATIF)

Since July 2012, the ILO has been collaborating with AATIF. The Fund invests in companies along the agricultural value chain, targeting small, medium and large-scale farms as well as other agricultural businesses. Investments can be direct (e.g. cooperatives, commercial farms and processing companies) or indirect (e.g. intermediaries, financial institutions). As of December 2014, AATIF's portfolio consisted of eight investments, for which the Fund is not only tracking its social and environmental impact but also a number of development indicators like household income in the case of financing smallholder schemes. This innovative structure is attracting private sector investments and leveraging the initial public sector capitalization. Key milestones include developing a social and environmental risk assessment methodology, testing it in 10 organizations and providing small-scale technical assistance to investments.

5. Practical guidance and resources

Based on the identified gaps in rural finance, the ILO suggests focusing on supporting knowledge creation and innovation in rural financial service delivery, increasing the managerial and technical capacity of financial service providers to serve rural and remote areas, and providing an enabling environment, in order to unlock the considerable economic potential of

rural areas and benefit rural populations. The choice of policy options should be guided by the vision of a competitive financial market with a multitude of players that provide appropriate and demand-driven products and services.

²⁴ ILO Impact Insurance Facility: *Piloting IBLI in Marsabit - ILRI*, 2013 <http://www.impactinsurance.org/es/projects/lessons/piloting-ibli-marsabit> [Accessed 17 April 2015].

Box 2

Support knowledge creation and innovation in rural finance

Research is needed to better understand demand for financial services in rural areas, as well as the barriers that affect users of financial services and products, in particular gender-related demand/barrier specificities, as well as those of remittance users and recipients, and groups like youth, disabled persons, indigenous populations and HIV-affected households.

The impact of financial service provision on rural household incomes, employment conditions and employment creation – as well as the potential contribution of financial institutions to improving decent work among rural households – should be further explored. Moreover, research is needed on agricultural value chains to identify the networks that value-chain actors use to distribute inputs and collect produce from farmers, and use those networks to channel financial services, improve risk management, and support capacity-building measures. Similarly, given that climate change is impacting agriculture all over the world, research is needed on how this is shaping demand for financial services and how responding services can be delivered in a sustainable manner.

In relation to innovations, financial institutions need support to innovate and adopt delivery models that reduce transaction costs e.g. deploy mobile banking units, as well as design innovative financial products that meet demand in rural and remote areas. The role of low-cost technology (such as mobile phones) in expanding the delivery of financial services to currently unserved people should also be explored.

The goal should be to extend a range of financial services that are tailor-made for agricultural production (e.g. crop and livestock insurance), agricultural-based industry (e.g. leasing, post-harvest use, warehouse receipt financing), non-farm enterprises (e.g. variety of loan products) and household consumers (e.g. savings, health insurance, housing loans, consumption loans).

Increase the capacity of a range of providers to serve rural and remote areas

The management capacity and governance of informal and semi-formal financial service providers, like SACCOs, village banks, informal savings groups, or alternative providers and delivery channels like input providers, organizers of out-grower schemes, or mobile phone companies, needs to be strengthened. In addition, informal providers should

be linked to formal financial institutions, as this could help them expand the range of services offered.

Efforts should be focused on strengthening the knowledge and capacity of commercial banks to engage in value-chain finance beyond traditional collateral lending. Furthermore, facilitating portfolio diversification of financial institutions can mitigate risks stemming from concentrated agricultural portfolios. The risks in financial portfolios resulting from climate change should be considered.

Capacity can also be increased through alliances among various types of institutions, for instance channelling insurance through financial institutions, retailers, mobile network operators or community-based organizations. Lastly, impact investors can contribute to increasing the lending capacity of financial institutions, traders and input suppliers.

Provide an enabling environment

The role of governments in ensuring an enabling environment is particularly important. Based on past experience, governments should: i) abolish or avoid reinstating interest rate ceilings that do not allow full cost recovery for financial service providers, especially those who service rural and remote populations; ii) abstain from direct credit schemes or subsidized first-tier government lending programmes; iii) support savings mobilization by prudential regulation of deposit-taking financial intermediaries; iv) integrate rural finance into the broader financial system development agenda; v) facilitate the link between formal, informal and semi-formal financial institutions, instead of pressuring the latter two to become large regulated formal institutions; and vi) improve infrastructure to lower transaction costs (e.g. in communications, electricity, transport).

More efforts should be put into increasing financial literacy of rural communities through financial education in schools and training curricula, and promoting a savings and insurance culture among rural populations through awareness campaigns, financial education or experience/testimony sharing among insured and uninsured people.

Specifically for insurance, index-based insurance products (e.g. weather-based crop insurance) should be supported by providing accurate statistical data (e.g. on regional rainfall) and infrastructure (e.g. weather stations) to collect data and make it available to insurers.²⁵

²⁵ FAO, IFAD, Ford Foundation: *An International Conference on Rural Finance Research: Moving Results into Policies and Practice*, Conference Proceedings, Rome 2007.

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Tools

Churchill, C.; Liber, D.; McCord, M.; Roth, J. 2003. *Making insurance work for microfinance institutions: a technical guide to developing microinsurance* (Geneva, ILO).

A guide for MFI managers on the design and operation of basic insurance products. Introduces fundamental insurance concepts, outlines the prerequisites needed for an MFI and describes the key features of five types of insurance products.

Deelen, L.; Majurinb, E. 2008. *Village banking in Lao PDR: Handbook for village bank management committees and support organizations* (Bangkok, ILO).

Practical tool for strengthening village banks as a means of giving poor women and men in rural and often remote areas access to financial services (savings and credit), social empowerment and a higher quality of life. There is also an accompanying ledger guide available.

ILO. *Financial Education: Trainers' Manuals*.

A series of training materials on financial knowledge and management skills, designed to teach vulnerable groups – including women and men in poverty, families with working children, youth and migrant workers.

Publications

Churchill, C.; Dalal, A.; Ling, J. 2012. *Pathways towards greater impact: Better microinsurance models, products and processes for MFIs* (Geneva, ILO).

Based on the experiences of MFIs, it is clear that they can provide risk-management services that are valuable for clients and institutions alike. The paper provides a comprehensive review of the challenges and successes of MFIs and offers ten key recommendations.

Churchill, C.; Matul, M. 2012: *Protecting the Poor: A Microinsurance compendium. Vol. II* (Geneva, ILO).

This knowledge product contains chapters on climate change, next-generation index insurance for smallholder farmers and livestock insurance.

Frankiewicz, C.; Churchill, C. 2011. *Making Microfinance Work: Managing Product Diversification* (Geneva, ILO).

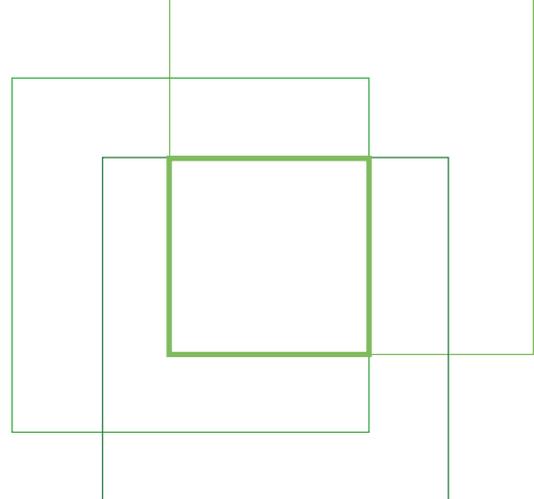
A chapter on rural microfinance and a stand-alone course (in development) in the MFI management training programme “Making Microfinance Work: Managing Product Diversification”.

Richter, P. 2011. *Empowering rural communities through financial inclusion* (Geneva, ILO).

Policy brief on financial inclusion for rural communities.



Overview of Policy Guidance Notes on the Promotion of Decent Work in the Rural Economy



Supporting inclusive agricultural growth for improved livelihoods and food security

- Decent Work for Food Security and Resilient Rural Livelihoods
- Decent and Productive Work in Agriculture

Promoting economic diversification and triggering productive transformation for rural employment

- Economic Diversification of the Rural Economy
- Promoting Decent Work for Rural Workers at the Base of the Supply Chain
- The Role of Multinational Enterprises in the Promotion of Decent Work in Rural Areas
- Transitioning to Formality in the Rural Informal Economy
- Sustainable Tourism – A Catalyst for Inclusive Socio-economic Development and Poverty Reduction in Rural Areas

Promoting access to services, protection and employment-intensive investment

- Providing Access to Quality Services in the Rural Economy to Promote Growth and Social Development
- Extending Social Protection to the Rural Economy
- Developing the Rural Economy through Financial Inclusion: The Role of Access to Finance
- Employment-Intensive Investment in Rural Infrastructure for Economic Development, Social and Environmental Protection and Inclusive Growth

Ensuring sustainability and harnessing the benefits of natural resources

- A Just Transition towards a Resilient and Sustainable Rural Economy
- Decent Work in Forestry
- Harnessing the Potential of Extractive Industries
- Water for Improved Rural Livelihoods

Increasing the voice of rural people through organization and the promotion of rights, standards and social dialogue

- Rights at Work in the Rural Economy
- Promoting Social Dialogue in the Rural Economy
- Building Local Development in Rural Areas through Cooperatives and other Social and Solidarity Economy Enterprises and Organizations
- Decent Work for Indigenous and Tribal Peoples in the Rural Economy
- Empowering Women in the Rural Economy
- Decent Work for Rural Youth
- Promoting Fair and Effective Labour Migration Policies in Agriculture and Rural Areas

Improving the knowledge base on decent work in the rural economy

- Enhancing the Knowledge Base to Support the Promotion of Decent Work in Rural Areas

For more information please visit www.ilo.org/rural or contact rural@ilo.org

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