Briefing

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Money from within: leveraging producer organisations' finance

Policy pointers

FFPOs' capacity to mobilise internally-generated finance has the potential to reduce the finance gap for smallholders, and mechanisms such as savings groups and financial cooperatives should be recognised and nurtured.

Development donors and practitioners should work with FFPOs to establish and strengthen local financial mechanisms by providing enabling investment, blended finance and capacity building.

Governments should create a regulatory environment that supports FFPOs to establish financial mechanisms such as Savings and Credit cooperatives and Credit Unions.

Strong financial cooperatives in forest and farm landscapes can efficiently channel official development aid and climate and nature finance to the local level; donors should work with them to get money where it matters.

Access to external finance for smallholder forest and farm producers is limited, hindering their effective action on climate, nature, livelihoods and food security. However, forest and farm producer organisations (FFPOs) can mobilise internally-generated finance. This briefing maps three stages and eleven steps that FFPOs use to establish savings groups and larger financial cooperatives. It describes how these accessible, flexible, trust-based financial mechanisms meet diverse member needs, strengthen solidarity, empower women, increase climate resilience and fund sustainable, productive activities, often at significant scale. These mechanisms also build financial track records, reducing perceptions of risk and increasing access to external finance. They can effectively provide an efficient channel to deliver climate and nature finance to the local level.

Smallholder and family forest and farm producers, Indigenous Peoples and local communities are crucial for the sustainable management of forest landscapes. They often organise themselves into producer groups (FFPOs) to reduce costs, share knowledge, increase the scale of production, and advocate for more enabling policies.

Through their strength in numbers, FFPOs have the potential to be key change agents. Their productive activities are critical to delivering effective action on climate, nature, livelihoods and food security. Evidence shows that as well as delivering economic development and food security,[1] FFPOs are a powerful force for forest landscape restoration, which adapts to and mitigates climate change and conserves biodiversity.[2] FFPOs' businesses are usually collectively owned by their members and democratically managed.[3] Profitability is often seen as a necessary element within a broader vision of sustainability that blends concerns about social inclusion, environmental resilience and economic distribution. This vision makes these businesses especially capable of delivering these benefits to society.

FFPOs often require finance to grow their businesses, but access to external sources is limited. In remote rural areas, public finance is minimal, and development assistance rarely reaches the local level. Conventional banks perceive FFPOs to be high-risk and require collateral, which is a challenge for most smallholders.[4] FFPOs often turn to local moneylenders, but these tend to charge high rates. Although all finance sources have advantages and disadvantages, internally generated finance is a promising and rarely discussed source.

FFPOs can effectively mobilise their funds to provide financial services

All FFPOs have internal financial resources that come from profits generated by selling products or services, or from members' shares, savings and membership fees. FFPOs can mobilise these resources, establishing mechanisms to provide financial services to their members. This provides benefits that external sources cannot, as the resources are under the FFPO's control and can help the FFPO and its members become financially literate, accountable and self-reliant.

When FFPOs establish financial mechanisms, they better support their businesses, which brings benefits to people, nature and climate

Research shows that producer organisations facilitate their members' access to credit from banks,[5] and many FFPOs also provide credit and other basic financial services to their members from their internal funds. A recent report[6] shows that South East Asia is the region where most farmer organisations provide financial services to their members and also the one with the smallest financing gap. Estimates suggest that almost a quarter of all finance delivered to smallholders globally is channelled through community-based financial mechanisms.[7]

FFPOs have used different mechanisms to mobilise their internal finances. These vary in sophistication, from informal small savings groups using cashboxes to large, fully digitised financial cooperatives. In between, there are a variety of financial cooperatives, such as Savings and Credit Cooperatives (SACCOs) and Credit Unions. Importantly, some of these groups started as informal savings groups but, over time, have grown into established financial cooperatives, showing a pathway for mobilising internal finance at scale. FFPOs and their development partners should recognise and support this pathway for facilitating access to finance for their members.

Locally-led financial mechanisms: savings groups and financial cooperatives

Savings groups are common and widespread informal mechanisms that serve tens of millions of forest and farm producers. They are voluntary groups based on trust, in which members save together, both to fund loans and to generate interest for those who have pooled their money. Evidence shows that savings groups have positive impacts on their members' businesses, can advance women's empowerment, and provide enhanced resilience for their members because they allow diversified investments into many income-generating opportunities.[8] They can have considerable durability over time, but their growth is constrained by the duration of the savings and loans cycle, which is often based on annual contribution and redistribution.

Financial cooperatives are also widespread. They are member-owned and democratically managed financial institutions, where members typically share a commonality based on a geographic area, trade community, or other affiliation. As opposed to savings groups, financial cooperatives are businesses. They can grow, expand their capital and become more profitable over time by offering services that generate income. However, due to their cooperative principles and ownership structures, the main purpose of these businesses is to benefit members rather than to maximise profit.

Well-managed financial cooperatives bring many benefits to their members and to the wider economy.[9] As community-rooted organisations, financial cooperatives can provide tailor-made products that serve the needs of their members better than any other financial entity. They foster local economic development, promote financial inclusion, increase entrepreneurship, and build solidarity. Financial cooperatives nearly always form federations, organising themselves in a two- or three-tier system, with a federation at the national or regional level and primary organisations serving members at the local level. Together, these federations provide an alternative system for financing smallholders through a more democratic, solidarity-based and welfare-oriented model.

How FFPOs provide financial services to their members

IIED analysed six country case studies and conducted an academic literature review on community-based financial mechanisms.[10] The case studies looked at FFPOs from Brazil, Bolivia, Ecuador, Ghana, India and Zambia that established savings groups and financial cooperatives with their resources. These range in scale from US$2,320 in assets for a savings group in Zambia to almost US$5 billion for the Cresol Credit Union in Brazil.

The FFPOs took different pathways to establishing these mechanisms. Some organised savings groups across their membership and later mobilised these groups to establish a financial cooperative. Other

FFPOs started by establishing SACCOs, which later promoted the creation of savings groups at the farm level, and once these groups were operating well, they were linked to the closest SACCO. Some FFPOs started providing small loans as agricultural cooperatives and later set up separate financial cooperatives using profits from their business and members' shares as starting capital. The financial cooperative became an additional income-generating activity that serves its members at the same time.

Despite the different approaches, there are some common steps and actions which FFPOs took and that other FFPOs and their supporting development partners can consider when mobilising internal finance (see also Figure 1):

1. Setting the conditions

- Strengthen internal governance and build trust between the FFPO and its members
- Organise collective savings mechanisms, such as savings groups, and cultivate savings habits among members
- Institutionalise the mechanism in line with a suitable institutional model according to the objectives and regulatory framework in the country.

2. Providing financial services

- Use the FFPO's knowledge of their members' needs strategically to tailor the services to ensure uptake and lower risks of loan default
- Build alliances with trusted partners that align with the FFPO strategy
- Provide non-financial services to members, such as social funds, financial literacy training and technical support, to strengthen solidarity and reduce the risk of defaults
- Professionalise staff and digitise processes to accelerate efficiency and enhance transparency.

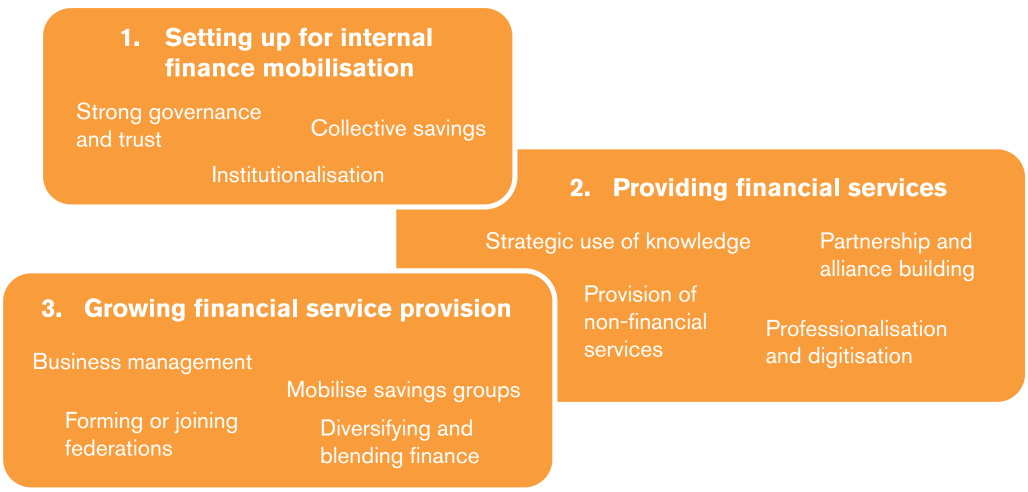
3. Growing financial service provision

- Manage the provision of financial services as an additional business
- Mobilise savings groups to establish financial cooperatives or to link to existing ones
- Diversify funding sources and blend finance to channel funds to the local level
- Federate or join existing federations of financial cooperatives to amplify impact and advocate for more enabling policies.

The case studies show that FFPOs often had partners from development and official development assistance (ODA) organisations who supported them in different ways during this process. They built capacities in financial management or provided training for forming savings groups. They also supported the growth of savings groups, for example, assessing their potential for establishing financial cooperatives. In some cases, partners provided enabling investment to complement the FFPOs' internal finance to establish a financial cooperative, blending concessional with private finance. FFPOs lead this process, but practitioners and ODA organisations can and should support other FFPOs to mobilise internal finance.

A challenge some FFPOs faced was the lack of enabling regulatory frameworks for their financial cooperatives to thrive. For example, FFPOs struggled with the lack of an appropriate legal model or lengthy formalisation requirements that were inappropriate for their

Figure 1. Stages and steps for mobilising internal finance



scale. Government policies should empower financial cooperatives, fostering their development while ensuring adherence to financial sector rules for member protection. Institutional strengthening is crucial, and regulations should align with the institutions' scale and sophistication.[11]

FFPOs' financial mechanisms deliver climate and nature finance at the local level

The case studies also show that when FFPOs establish these financial mechanisms, they better support their businesses, which brings benefits to people, nature and climate. FFPOs that have successfully established financial cooperatives generate additional profits that provide another source of income to the organisation, enabling them to invest in its businesses. While delivering financial services, FFPOs also deliver complementary non-financial services, often improving members' financial literacy and business capacity. As members become more financially literate and access loans from the financial cooperative, they also build a financial track record, which helps them access finance from other sources.

Based on the in-depth knowledge FFPOs have of their members, they are able to tailor their products and provide flexibility for members to experiment and diversify their businesses. Money can be loaned for experimental income-generating investments — for example, to improve climate resilience — based on the known capacity of the member to repay the loan from other existing income streams. FFPOs' financial mechanisms almost always offer social funds to support their members in emergencies, which strengthens cohesion and solidarity. Most of the case studies also show how tailoring the products has particularly benefitted women, who often struggle the most to access finance.

Once the financial cooperatives are well established and have management processes in place, they start channelling external funds to their members. They work in partnership with public and private banks, as well as development organisations, to fund sustainable, productive activities such as land restoration, climate-friendly agriculture and agroforestry systems, among others. Donors and climate financiers should start working with FFPOs' financial mechanisms to get finance to smallholder producers through products and services tailored to their circumstances.

Unlocking the full potential of FFPOs goes beyond their role in providing access to finance for smallholders; it extends to their significant capacity to channel climate and nature finance directly to the local level. Recognising and supporting FFPOs and their financial cooperatives can harness this vast potential.

Isabela Nunez del Prado

Isabela Nunez del Prado is a forest finance researcher in IIED's Natural Resources Group.

Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges.

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Contact
Isabela Nunez del Prado
isabela.nunezdelpradonieto@iied.org

44 Southampton Buildings
London, WC2A 1AP
United Kingdom

Tel: +44 (0)20 3463 7399
www.iied.org

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Notes

[1] See for example: Lowder, SK, Sánchez, MV and Bertini, R (2021) Which farms feed the world and has farmland become more concentrated? *World Development*, 142. DOI: 10.1016/j.worlddev.2021.105455 / [2] See for example: Djenontin, INS, Zulu, LC and Richardson, RB (2022) Smallholder farmers and forest landscape restoration in sub-Saharan Africa: Evidence from Central Malawi. *Land Use Policy*, 122, 106345. DOI: 10.1016/j.landusepol.2022.106345 / [3] Macqueen, D, Bolin, A, and Greijmans, M (2015) Democratising forest business: a compendium of successful locally controlled forest business organisations. IIED, London. www.iied.org/13581iied / [4] Macqueen, D, Benni, N, Boscolo, M, and Zapata, J (2018) Access to finance for forest and farm producer organisations (FFPOs). IIED, London. www.iied.org/13606iied / [5] Benson, A and Faguet, JP (2022) Increasing Access to Formal Agricultural Credit: The Role of Rural Producer Organisations. *The Journal of Development Studies*, 59(1), 21–38. DOI: 10.1080/00220388.2022.2102899 / [6] IFAD (2023) Access to finance for farmers' organizations: Evidence from a multi-country survey. / [7] ISF Advisors (2019) Pathways to Prosperity: Rural and Agricultural Finance State of the Sector Report. https://pathways.isfadvisors.org / [8] See for example: Karlan, D, Savonitto, B, Thuysbaert, B, and Udry, C (2017) Impact of savings groups on the lives of the poor. *PNAS*, 114(12), 3079–3084. DOI: 10.1073/pnas.1611520114; Ksoll, C, Lilleør, HB, Lønborg, JH and Rasmussen, OD (2016) Impact of Village Savings and Loan Associations: Evidence from a cluster randomized trial. *Journal of Development Economics*, 120, 70–85. DOI: 10.1016/j.jdeveco.2015.12.003 / [9] See for example: Birchall, Johnston (2013) Resilience in a downturn: the power of financial cooperatives. International Labour Organization. www.ilo.org/empent/Publications/WCMS_207768/lang--en/index.htm / [10] Nunez del Prado, I (2024) Mobilising internal finance. How forest and farm producer organisations upscale access to finance. IIED, London. www.iied.org/22326IIED / [11] Cuevas, EC and Buchenau, J (2018) Financial Cooperatives: Issues in Regulation, Supervision, and Institutional Strengthening. World Bank, Washington, DC. https://policycommons.net/artifacts/1275637/financial-cooperatives/1862858/