

Researchers

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Timeline

2009-2011

Sample Size

435 farmers

Research Implemented by IPA

Yes

Supply Chain Financing for Dairy Farmers

Policy Issue

Farming entails long cycles of production which require up-front investment in animals, equipment, seeds, fertilizers, and other inputs. However, small farmers may have problems securing access to credit if they are located in remote areas that are not served by traditional financial institutions. Many small farmers manage their businesses informally and frequently do not have records or financial information that banks require for lending. Some microfinance institutions have tried to expand their usual urban activities to rural clients, but the costs of doing business in rural areas are still high and limit their scope. However, farmers often have stable relationships with agriculture processing companies and traders who purchase their crops, and these relationships may provide an opportunity to facilitate loan distribution and repayment.

Context of the Evaluation

In Colombia, less than 8% of rural households and enterprises are thought to have access to formal loans^[1]. Nevertheless, there are about 400,000 families engaged in small and medium agribusiness for the production of milk in rural Colombia.^[2] Milk production requires daily contact between the producer and the buyer, with payment occurring frequently. Buyers tend to attract the best dairy producers by providing access to inputs for production, or other services, or rewarding quality with higher prices.

Details of the Intervention

Bancamía, a bank specializing in microfinance, partnered with Alquería, a Colombian dairy company, to offer an individual loan product to small dairy farmers. Four hundred thirty five

small dairy farmers who sell milk to Alquería via three intermediaries were randomly assigned to a treatment group, receiving a loan product offering, or a comparison group, receiving no product offering.

Bancamía offered the farmers in the treatment group a micro-loan with a unique repayment process. Each month when the loan installments were due, farmers did not have to travel to the bank office to make the payments. Instead, the Alquería dairy deducted the value of the monthly installment from the farmer's milk transfer payment and paid the bank directly. This scheme reduced risk for the bank as well as transportation, planning and transaction costs for the farmers. Loans ranged from about one to five million COP (about 560-2,800 USD) and were granted over a one to three year period.

To promote the credit program, meetings were held at the offices of three of the Alquería buying intermediaries to introduce farmers to the program, the benefits of the product, the rules and obligations, and the loan application and repayment process. At the end of the meetings, milk farmers in the treatment group were provided with bank contact information and the opportunity to file a credit application. Both those who participated in the meetings and selected participants who could not attend the promotional meeting received a phone call reminder about the program. Before, during, and after the program, surveys were administered to collect socioeconomic information, household wellbeing, and loan data.

Results and Policy Lessons

Low levels of loan product take-up led to a discontinuation of the evaluation. Two main issues affected the implementation. Firstly, two Alquería intermediaries offered their own loan products, very similar to the product offered by Bancamía, which lowered the demand. Secondly, the beginning of the rainy season was unexpectedly devastating that year, causing major flooding, damage to farmland, and death of livestock. While the evaluation was discontinued, Bancamía, Alquería, and the intermediaries have continued to service the 33 clients who applied and received loans.

Sources

[1][Colombia Rural Finance: Access Issues, Challenges and Opportunities](#). Rep. no. 27269-CO. World Bank, Nov. 2003. Web. 16 Mar. 2010

[2][Rivera, José Félix Lafaurie, "TLC...la batalla no ha terminado."](#) Carta Fedegan N. 117.

April 22, 2014