

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



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

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CSAM



# Outline: Financing for Sustainable Agricultural Mechanization

**I. Introduction**

**II. Challenges**

**III. Current Practices**

**IV. Opportunities & Suggestions**

## I. Introduction

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

## II. Challenges in financing for SAM

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

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

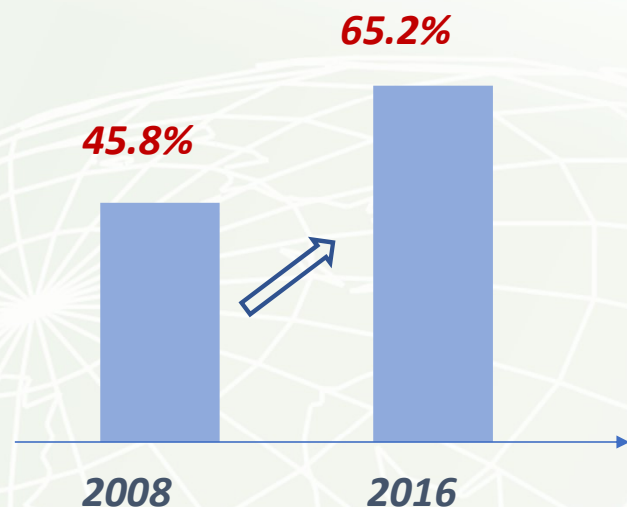
## II. Challenges in financing for SAM

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

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

### III. Current practices in financing for SAM

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

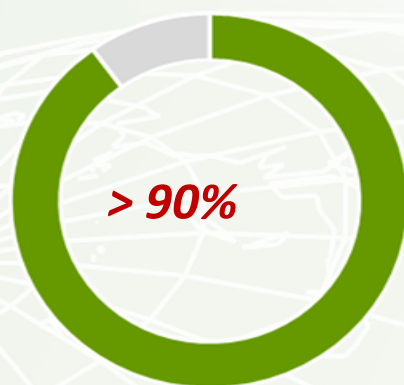


*Level of Comprehensive agricultural mechanization across China*

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

### III. Current practices in financing for SAM

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



*Case of Thailand: 90% of combine harvesters are operated via custom hiring.*

- Custom hiring can:
  - bring down the average cost
  - reduce drudgery and physical workloads
  - offer rural employment opportunities
- Existing constraints: policy support, skills, technologies, managerial competencies...

### III. Current practices in financing for SAM

#### (3) **Microfinancing** plays crucial role in empowering smallholders in financing



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

- With small loans, microfinance helps to reduce risks for both lenders and borrowers.
- A wide variety of delivery systems and institutional models exist for microfinance.

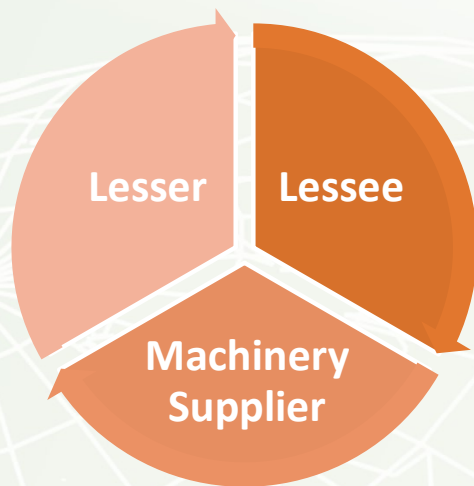
*Non-governmental organizations, cooperatives, self-help groups, rural banks...*

- However, smallholders in many countries in the Region have limited access to microfinancing due to insufficient credit facilities and higher interest rates.



### III. Current practices in financing for SAM

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



*Three parties are involved in the process.*

- Emerged in 1950s in US: Financing capital & Financing goods
- Forecasted marketing volume of financing leasing for agricultural machinery expected to reach 150-200 billion CNY (21-28 billion US\$) in year 2020 in China.

## IV. Opportunities & Suggestions

### *Some suggestions for further consideration:*

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



*Thank you!*