

## GUIDELINES FOR MUNICIPAL POLICYMAKING ON URBAN AGRICULTURE

# Microcredit and Investment for Urban Agriculture



Financial management for microcredits, CEPESIU, Quito – Ecuador

### Four Reasons Why Urban Agriculture Matters

#### Hunger is growing

In less than 30 years, the number of people who go to bed hungry in Latin America has increased by 20%: as many as 65 million people are now affected. Feeding the entire population is a challenge that cities must meet.

#### Natural medicines for all

The poor spend between 40 and 60% of their scarce incomes on food and almost 15% on health care and medicine. The production of medicinal plants and derived products — infusions, extracts, and essences, — facilitates access to health care for the very poor and marginalized.

#### Recycling wastes and wastewater can help ensure food security in cities

Only 2% of the waste produced in our cities is treated properly. Thousands of cubic meters of wastewaters are not being used or are treated at a high cost. These can be transformed, however, into excellent sources of natural fertilizer, irrigation water, and nutritional supplements for animals.

#### Creating low-cost employment and generating income

Urban agriculture (UA) generates employment at a low cost in relation to the estimated costs of other productive sectors. Creating on job in UA costs less than US \$ 500, an investment that can be recovered through micro-credits.

The benefits in terms of food, health, the environment, and job creation explain why an increasing number of municipalities want to develop and modernize their urban agriculture programs.

This series of guidelines is based on current scientific and technological research and reflects innovative practices in cities in the region. These practices are a source of inspiration: we invite you to share them and, in turn, enrich the experience.

Happy urban harvesting!

Y.C.



Evaluating the impact of credit, Maricao – Venezuela

### Challenges

Political and financial legitimacy are both essential for ensuring success and replication of urban agriculture (UA) experiences. Many urban producers do not have access to credit and investment programs, which restricts their opportunities for investing in more sustainable technologies, new crops, better breeds, and for acquiring materials or equipment that would help them to achieve greater productivity and higher incomes, and would enhance food security.



Community bank, Puno – Peru

Local governments must therefore:

- Mobilize resources by allotting a portion of the municipal budget to UA activities.
- Promote and facilitate access to capital by the poorer groups as a way to foster social inclusion and create conditions that are compatible with the technical and operating requirements of UA.
- Complement funding programs with activities aimed at strengthening social organization, and provide technical assistance, training, and marketing support.

This document provides guidelines and suggestions for developing and implementing local credit and investment programs for urban agriculture.

*“Local governments should show a clear commitment to the development of urban agriculture, mobilizing existing local resources, integrating urban agriculture in the municipal structure, expanding it nationwide, and allotting funds from the municipal budgets for carrying out urban agriculture activities.”*

*Quito Declaration, signed by 40 cities. Quito, Ecuador. April 2000.*

# Six Guiding Principles for Policymaking

## *In support of microcredit and investment for urban agriculture*

### 1. Defining a policy of inclusion

The local government should develop a system for financing and promoting microcredit, investments (e.g., subsidies), and savings to help maximize food production, processing, and marketing by the most vulnerable groups. This table shows how the poor could be included in the formal sector of the economy as a result of collaboration between the local government and financial institutions, using the caring economy approach.

Cycle	Savings	Subsidy	Capital	Interest	Comments
1	1	2	3	0	Local Government Included
2	2	1	3	0	
3	2	0	4	Yes	Formal Institution Autonomy

The figures in the table are provided as examples only. Cycles 1 and 2 promote inclusion by offering favourable conditions to micro-producers through savings, subsidies, and financial incentives (credit payable without interest). In Cycle 1, for every US \$ 1 in savings, \$2 are assigned to subsidies and \$3 to microcredits (total: US\$6).

The system promotes savings and accumulation of capital by decreasing subsidies. In Cycle 3, credit autonomy is attained (charging interest), and opportunities for including new producers are provided.

The duration of the cycles varies depending on the capital accumulation process. Those who can make higher payments provide financing, through interest payments (subsidies and incentives), for those who are not in a position to pay for the credit service.

### 2. Mobilizing and managing funds

To mobilize the necessary funds, special consideration should be given to the following issues:

#### **Capitalization**

Securing capital to create the seed fund is a key requirement.

Between 1997 and 2000, the Municipal Administration of **Texcoco (Mexico)** funded food pro-

duction projects through the "Ramo 33" program, which provides for the use of some of the resources transferred by the Central Government to States and municipalities. The Ramo program incorporates several funds, including the Fondo de Infraestructura Social Municipal and the Fondo de Aportaciones para el Fortalecimiento de los Municipios.

#### **Increased involvement by financial institutions**

It is essential to have the commitment of private and recognized financial institutions in order to diversify the portfolio of resources available and to plan actions accordingly.

### 3. Selecting applicants

To facilitate access to microcredit by low-income producers and the most vulnerable groups (i.e., women and young people), selection criteria should favour social inclusion.

These may include economic criteria (Is the income generated by the activity being funded adequate to cover the needs of the producer and her/his family?); social criteria (Does the activity help to improve relations within the producer's family or among producers and the community?); and environmental criteria (Is the activity that is being funded environmentally sustainable?).

In **Argentina**, the Social Agriculture Program provides credits only to (a) those producers with no other source of additional income for themselves or their family, except for emergencies, and (b) producers whose monthly family income does not exceed two salaries of farm workers (approx. 560 pesos or US \$78 in November 2002).

### 4. Defining financial operation guidelines

The establishment of specific selection criteria may not automatically increase involvement and bring about social inclusion. It is necessary to ensure that the guarantees, interest, amounts, and deadlines specified allow for full access to capital and that they are compatible with the technical and operational requirements of UA.

#### **Types of loan security**

Instead of requiring actual collateral or reserves, other types of joint guarantee, which may be more accessible to low-income groups, exist to cover non-



Receiving credit, La Paz – Bolivia



Microcredit for family farming, Fortaleza – Brazil

payment risks, such as group credits with joint and several guarantees. In **Brasilia (Brazil)**, the PROVE Program created a state fund with a nonmonetary guarantee in the form of "Mobile Agroindustries" (metal frames that can be transported on a truck). Since these frames are mobile and durable, they can be used as collateral for each loan.

#### **Interest rates**

The credit systems to be created should have subsidized interest rates or enjoy another special arrangement to ensure financial sustainability.

#### **Amounts, payment modes, and repayment periods**

The amounts, payment modes, and periods should be defined in accordance with the investment requirements and the capital payback period, depending on the nature of the business. In some countries, priority has been given to social policies. Such is the case in **Argentina**, where the PSA Program has implemented a line of credit for family farming, allowing producers to receive amounts of up to \$200 pesos (US\$56 as of November 2002), with payback options involving either products or working in a public welfare institution (school kitchens, hospitals).

#### **Grace period**

This period during which the user makes no payment or only interest payments derived from the loan should be determined in relation to the payback period of the activity being funded. In **Texcoco (Mexico)**, periods of grace from 3 to 9 months were specified, depending on whether the UA activity was crop farming or animal husbandry.

### **5. Additional complementary sources of funds**

Microcredit is only one component of an integral development strategy. To minimize investment risks, an income flow must be secured through production diversification (e.g., short- and long-cycle crops, or high- and low-value crops); support to processes for adding value; and the development of marketing strategies.

The aim is to have an institutional framework for:

#### **Promoting social organization**

Producers should be provided with incentives and support for organizing themselves (partnerships, cooperatives) in order to improve the program's sustainability.

In **Texcoco (Mexico)**, 164 flower growers formed a cooperative to build a centre for the cultivation of cuttings from greenhouse flowers. Maintenance costs and salaries for those working in the centre are covered by membership fees. The cooperative has also been able to secure additional external funds from federal and state agencies.

#### **Implementing support strategies**

It is necessary to put in place specific support strategies for both the credit management process and the food production, processing, and marketing processes (training in production, technologies, business management, as well as technical assistance, legal advice, taxation advice, product promotion and marketing).

In **Cuenca (Ecuador)**, the Municipality granted credits to a group of women who wanted to market their crops. The financial support was complemented with spaces in fairs and markets, thus providing an infrastructure suitable for offering their products for sale.

#### **Creating standards that facilitate the application process**

Regulations should be developed to ensure availability and access to land and services. The lack of security concerning land tenure and the fear of eviction prevent producers from investing. (See Guideline 3.)

### **6. Evaluating the impact of the program**

If one takes a holistic approach to development, it is important that the monitoring and evaluation system implemented not only identify the economic-financial impacts, but also address the qualitative aspects — improvements in the users' quality of life.

Examples of indicators:

- Economic inclusion: changes in the family assets and income before and after obtaining credit, and access to new sources of capital and financial resources.
- Inclusion as citizens: changes for all family members concerning access to education, health services, and other rights as citizens.
- Physical inclusion: changes in access to housing and basic services.
- Financial sustainability of the credit system: the percentage of overdue portfolios (index of amortization payments), money value (inflation), income-cost ratio (income from interest and the system operation costs).
- Economic return of the activity being financed.



Credits for poultry raising, Camilo Aldao – Argentina



Participatory workshop on microcredit, Quito – Ecuador

*"Micro-credit programs have shown that they are an efficient tool to free people from poverty. They have helped them become involved in the main economic and political processes of their cities."*

María Fernanda Garcés, Coordinator, Fondo de Inclusión Social y Desarrollo Económico. Municipality of the Metropolitan District of Quito, Ecuador.

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Signing microcredit contracts, Camilo Aldao – Argentina



## Microcredit and Investment for Urban Agriculture

No. 4

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**This policy document is part of a series of nine guidelines on different urban agriculture themes:**

1. Urban agriculture: A tool for sustainable municipal development
2. Urban agriculture and citizen involvement
3. Urban agriculture: Land use management and physical planning
4. Micro-credit and investment for urban agriculture
5. Recycling organic wastes in urban agriculture
6. Treatment and use of wastewaters in urban agriculture
7. Urban agriculture: Fostering equity between men and women
8. Urban agriculture and food sovereignty
9. Processing and marketing urban agriculture products

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