

# Program Profile



## SAFIRA: Expanding access to finance for farmers and businesses in eastern Indonesia

Strengthening Agricultural Finance in Rural Areas (SAFIRA) is a three-year project that is part of the Government of Indonesia (GoI) strategy to accelerate poverty reduction through inclusive economic development. It is supported by Bappenas and the Australian Government's Department of Foreign Affairs (DFAT) under the Australia-Indonesia Partnership for Rural Economic Development (AIP-Rural).

The program will focus on agriculture value chain financing (VCF) to expand smallholder farmer access to finance. VCF is made possible by value chain relationships and mechanisms: for example, a bank issues a loan to farmers based on a contract with a trusted buyer; or a warehouse receipt from a recognised storage facility. VCF mechanisms are used primarily to reduce lending risks, by leveraging relationships as assets, and/or transaction costs of lending, by using value chain actors as loan assessors, distributors or collectors for financial services.

Some of the other relationships along the agriculture value chain are shown below:

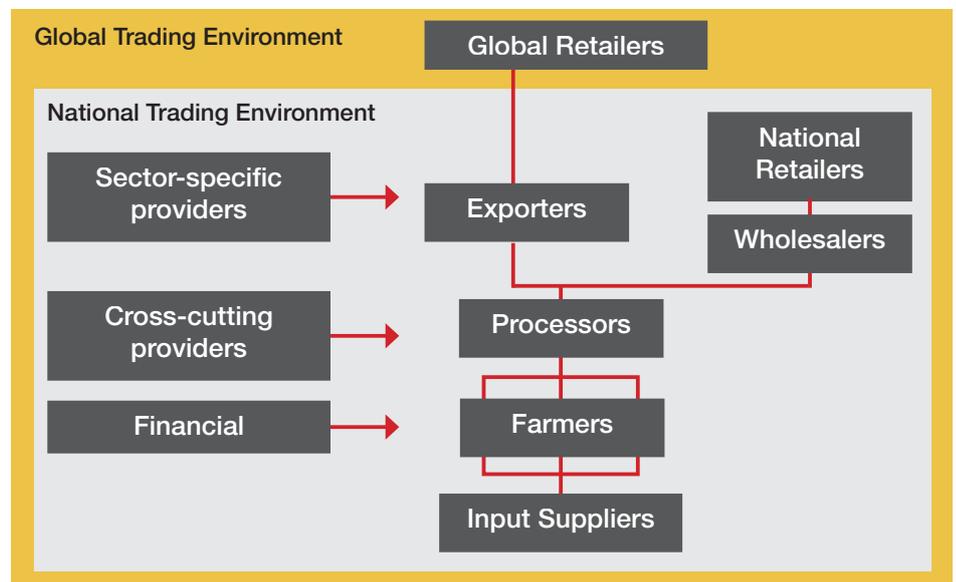




Photo: SAFIRA

SAFIRA will work with partner financial institutions (PFIs), small and medium enterprises (SMEs) (e.g. seed producers, other input suppliers, collectors, processors, other traders), and farmers to equip them with the skills and capability to engage in sustainable applications of VCF.

## BACKGROUND

AIP-Rural is a suite of programs that improves smallholder farmers' access to new markets, better inputs, knowhow and technology, irrigation and small loans. AIP-Rural operates in Eastern Indonesia and focuses on agricultural sectors that have strong growth potential and are the main source of income for a large number of smallholder farmers.

One of its programs is PRISMA (Promoting Rural Income through Support for Markets in Agriculture), which aims to improve agricultural competitiveness—productivity, profit, access to new or better markets, and innovation—for rural farmers. Given the synergies with the PRISMA program, such as existing value chain knowledge and key stakeholder relationships, SAFIRA will provide technical assistance to PRISMA.

In addition, SAFIRA will work closely with the two other Australia-Indonesia partnerships, ARISA (Applied Research and Innovation Systems in Agriculture) and TIRTA (Tertiary Irrigation Technical Assistance). ARISA aims to disseminate applied and adaptive research in agriculture that will have practical and significant impacts on the incomes of farmers. TIRTA is a program that seeks to improve smallholder farmers' access to irrigation by supporting the creation of tertiary irrigation schemes.

## WHO WE ARE

The aim of SAFIRA is to develop and formalise VCF with selected banks in eastern Indonesia as one way to scale up cost effective and sustainable lending to smallholder farmers. SAFIRA will also leverage the usually intangible assets that smallholder farmers have, namely their long term relationships with their suppliers and buyers. This will allow farmers to access additional credit, in many cases so that it can increase purchases of inputs from suppliers and to expand production sold to other SMEs.

The key goal of SAFIRA is to increase the net incomes of 6,000 farmers by increasing access to financial services, primarily credit, through internal and external value chain finance for 12,000 farmers and 250 SMEs. The project will also monitor other indicators, such as the volume and quality of its PFIs' agricultural portfolio.

SAFIRA will focus initially on East Java, West Nusa Tenggara and East Nusa Tenggara.

## WHAT WE OFFER

- Advice on innovative and sustainable financing mechanisms to grow VCF for key players such as financial institutions and SMEs.
- Diagnostic and needs assessments to develop appropriate interventions to support PFIs and SMEs working with smallholder farmers.
- Delivery of capacity building and technical assistance to implementing partners, including through the provision of training / capacity building or by facilitating the participation of PFIs/SMEs in appropriate capacity building events.
- Liaison with, and (as required) broad support for, other AIP-Rural programs, PFIs/SMEs, other key market players and the Gol's rural economic development strategy.

# SAFIRA

Strengthening Agricultural Finance in Rural Areas

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