Editorial

Welcome to *Small Enterprise Development* under its new name, *Enterprise Development and Microfinance*. The change of title recognizes two changes that have been taking place over the last decade or more. The first relates to microfinance. When this journal was first launched in 1990 this term had hardly been coined, and microcredit, as it was then called, was considered to be all about loans for small businesses. Very soon, in response to the realization that poor people needed savings, loans and other services whether or not these were related to running a business, the term microfinance was born.

Since its start our journal has documented the startling growth of microfinance and its impact on the poor. Along with articles that charted the rise of microfinance institutions that were growing and covering their costs, we have also featured articles that question whether the poor have been reached, and if so, whether their lot has been improved by microfinance.

The second change, reflected in our dropping 'small' from *SED*, is more recent. Globalization means that large local and multinational firms are arriving, or are springing up in developing countries; they may compete with small businesses, or they may offer them business (see Kate McKee's observations on WalMart in this edition) but either way they cannot be ignored. Only if we understand the policies, business environment and initiatives that can foster beneficial linkages between large and small can we hope to support the businesses of the poor. Most poor people derive their livelihoods from small or survivalist enterprises of one kind or another – and it is this fact that will have attracted many readers to the small enterprise development field. But, if it is available, many of the poor would prefer employment in larger firms to the uncertainty of self-employment, and this requires economic growth right across the economy. We at *Enterprise Development and Microfinance* (EDM) will chart the policies and programmes that promote growth, but never forgetting to ask, does this growth include and benefit the poor?

The theme of this issue is an important one – Financial and non-financial support for agriculture – and to reflect this, the first edition of the re-launched journal is twice the normal length and will replace the June and September editions. Many of the articles arise from the FAO, Ford and IFAD conference 'Rural Finance Research: Moving results into policies and practice' in March 2007, coordinated by Maria Pagura, and reported upon in this edition by Linda Jones. The theme also exemplifies the complementarity of microfinance and enterprise development, and the big and the small. Strong value chains that include big and small enterprises and growers also present opportunities for microfinance institutions. Growers who are well connected to a market for

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their produce are more likely to repay their loans. Jennifer Hansel's article describes some cases where linkages between farmers and their buyers enable banks to lend to the farmers for irrigation and other investments. However, such linkages are complex, often involving several parties, and it is scarcely surprising that, even with development organizations providing their facilitation free of charge, these arrangements often break down.

Overall, these papers point out that agricultural finance is hard, and most banks and MFIs have avoided it – Anita Campion reports that only 3.2 per cent of formal loans in Peru are for agriculture. Compared to 'traditional' microfinance clients such as petty traders, farmers seem to be risky borrowers: farming earns low returns, loans need to be longer term and more flexibly designed and crops can be threatened by drought, pests and the vagaries of commodity prices. Calvin Miller outlines the many types of agricultural finance that are in use worldwide, but only a very few of these are offered at present to small farmers in developing countries. Where banks and MFIs have made efforts to serve farmers, and have met with some modest success (as Mark Wenner et al. describe), they have treated this as a specialized lending area and recruited loan officers with agricultural experience; they have also spread their risk by restricting their agricultural lending to a small proportion of their portfolio.

Value chain development work is also difficult, and many of the value chains that are forming and reshaping today are squeezing out smallholders – this is evidenced by Hans Posthumus's article and by Sanae Ito's, about shrimp farmers in Bangladesh. Malcolm Harper and Doyle Baker debate whether the search for efficient, competitive value chains must come before the inclusion of the poor. In their complex and remarkable article, John Marsh and Nigel Smith set out three cornerstones for analyzing value chains: growth of the sector (in this case the world demand for bamboo products), potential competitiveness for this product in the geographical area being examined, and the impact on the poor. They conclude that the sector as a whole will continue to grow, the Mekong region could become competitive compared to China, and most of the jobs and value added could be captured by the rural poor. Let us hope that the restructuring of the industry, involving many parties, will be achieved.

Agricultural finance and value chain development are not easy to promote, even with the not-so-poor. Developing efficiency and poverty outreach is certainly a tall order, and something that cannot be left to the market. This is a legitimate role for donors: to fund studies that identify real potential on both fronts, and to work with the many private and public sector parties who will need to be involved to see this potential realized.

Clare Tawney, Editor

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