Review and Prioritisation of Policy Issues and Intervention Areas for Consideration under the SADC Regional Agricultural Policy (RAP)

Study No. 1: Finance, Investment and Institutional Issues Related to Food Security and Agricultural Development

Component: Agriculture/rural finance, credit and insurance systems

FINAL REPORT

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ABBREVIATIONS

AFRACA	African Rural and Agricultural Credit Association
ARE	agricultural and rural enterprise
ATM	automated teller machine
B2B	business-to-business
CAADP	Comprehensive Africa Agriculture Development Programme
CASP	Comprehensive Agricultural Support Programme (of South Africa)
CGAP	Consultative Group to Assist the Poor
CIBA	Centre for Inclusive Banking in Africa
COMESA	Common Market of Eastern and Southern Africa
DBSA	Development Bank of Southern Africa
DFI	development finance institution
DRC	Democratic Republic of the Congo
ECOWAP	Regional Agricultural Policy for West Africa
ECOWAS	Economic Community of West African States
ESIPP	EU-SADC Investment Promotion Programme
FANR	(Southern African Development Community) Food, Agriculture and Natural Resources (Directorate)
FAO	(United Nations') Food and Agriculture Organization
FDI	foreign direct investment
FMT	FinMark Trust

FTA	Free Trade Agreement
GDP	Gross Domestic Product
IFAD	(United Nations') International Fund for Agricultural Development
LPB	Lesotho Post Bank
LRSF	(Southern African Development Community) Land Reform Support Facility
MAFISA	Micro-Agricultural Financial Institutional Scheme of South Africa
MFI	microfinance institution
MS	(Southern African Development Community) Member States
NGO	non-governmental organization
PASS	Private Agriculture Sector Support (programme of Tanzania)
PPP	public-private partnership
RAP	Regional Agricultural Policy
RISDP	Regional Indicative Strategic Development Programme
SACCO	savings and credit co-operative
SACRAT	African Rural and Agricultural Credit Association (Southern African sub-region)
SADC	Southern African Development Community
SADCDF	Southern African Development Community Development Fund

EXECUTIVE SUMMARY

Agriculture is an important contributor to GDP and to household income in most SADC member states (MS), but for most low-income households farming is still largely a subsistence activity. That it is not a significant cash income-earner can be ascribed to two main sets of factors: the low returns that farming currently offers and that lead to an unwillingness to invest in agriculture, and to the internal lack of capital and the inability and/or reluctance to lend and borrow.

Whatever improvements are made to raise the returns that agriculture offers, without adequate access to and greater usage of borrowed capital, it will be difficult for most farmers to realize such returns, to produce more for the market and to improve food security. It appears that, despite having a particularly favourable record as borrowers, savers and users of credit, women suffer gender-related disabilities in accessing rural financial services and/or that they have a reluctance to use such services. Access to other financial services, such as savings, transmission, foreign exchange and insurance facilities, will also do much to accelerate agricultural development, as well as laying the foundation for increased lending.

It is important for the RAP to address both issues in order to accelerate economic development and regional integration. The task of this report is to identify and prioritize interventions for inclusion in the RAP that will improve access to, and the quality/appropriateness and usage of, agricultural/rural financial services.

The current status of such services varies from country to country, but common challenges include: poor access for most small farms/enterprises and households, especially to credit and insurance; reluctance, especially by formal sector institutions, to lend to small farmers because security and/or repayment and/or contract enforcement reckoned to be poor; few substitutes yet employed for freehold land-based collateral; few formal sector rural branch networks; prudential and capital structures seldom geared to cope with agricultural risks; few agriculture-specific regulatory systems; market growth retarded by information asymmetry; information seen as being too costly to acquire; savings and transmission facilities quite widely used, but seldom lead to lending or insurance; micro-credit less difficult to access, but expensive and poorly adapted for agricultural needs; a dearth of easily accessible foreign exchange facilities geared to the needs of the region's many small cross-border traders, some of whom are farmers; crowding out of private sector and NGO financial services by directed and/or subsidized agricultural credit and/or insurance; governments committed in principle to improving access to agricultural/rural finance but little significant progress made and performance by public sector intermediaries poor.

On the other hand, the extraordinarily rapid spread of mobile phones across the region and the development of new information technology systems/hubs for processing multiple microfinance institutions' transactions as well as for identifying clients quickly and relatively inexpensively offer substantial new opportunities for expanding the outreach and lowering the cost of agricultural/rural financial services, as do advances made in agricultural value chain finance.

Lack of access by small farmers to financial services, especially loans, is seen by most countries either as a priority issue for the RAP or as a matter of concern. Underlying causes identified by stakeholders include: price volatility, poor terms of trade, high risks from climate/disease and poor infrastructure (all impairing farmers' repayment ability); poor collateral and poor contract enforcement (both compromising lenders' security); and unpredictable public sector support (negatively affecting both security and repayment ability).

Related/additional issues identified include: the development of substitutes for land as collateral security; the evolution of tenure systems to allow for small farm consolidation without upsetting their traditional basis; the development of transmission, savings and insurance facilities appropriate for the needs and resources of small farmers; the elimination/reduction of gender-based disabilities constraining rural women's access to/use of financial services; the 'education' of potential intermediaries by gathering and disseminating information about clients' characteristics; the 'education' of potential clients by gathering and disseminating information about agricultural/rural financial products and services; the development of capital markets to enable lenders 'to borrow long in order to lend long'; the increase in the number and spread of service providers through incentives such as time-bound subsidies and part-guarantees; the institution of sector-specific regulatory structures for agricultural finance services; assisting the development and expansion - and also the regulation - of 'branchless banking', as well as of private sector farmer-support initiatives; the possibilities for reducing the cost and broadening the uptake of insurance by small/medium farmers brought about by recent developments in information systems and analysis; the liberalization of agricultural/rural financial markets structures; the enhancement of value chains using value chain relationships as opportunities to support the flow of agricultural finance; the elimination/amelioration of adverse macro-economic and other policies bearing on agriculture; closing the gap between policy and practice, particularly in respect of free trade between SADC members; the operation of policy at all of the levels necessary for it to be effective: macro, meso/industry, micro/supplier, individual/client.

While none of SADC's protocols or declarations to date directly address the improvement of agricultural/rural financial services, those that have an important indirect bearing are the founding SADC Treaty (1992), the Declaration on Productivity (1999), the RISDP (2003), the Dar-es-Salaam Declaration on Agriculture and Food Security (2004), the Protocol on Finance and Investment (2006) – which proposes the establishment of a regional development finance institution – and the Protocol on Gender and Development (2008) – which identifies and aims to eliminate as many as possible of the disabilities that constrain rural women's access to and use of financial services by 2015. In contrast, the Comprehensive African Agriculture Development Programme (CAADP) gives extensive coverage both to the causes of the current low level of access as well as to measures to address the problem, as does the recent 'Kampala Declaration on Rural Finance'.

Of the relatively few implementation initiatives undertaken to date that are immediately relevant to the provision of agricultural/rural financial services, the establishment of the Land Reform Support Facility (LRSF) in 2003 and the 2009-10 investigation into the advisability and mechanics of establishing an SADC Development Fund (SADCDF) are potentially the most important. The impact of the LRSF to date is unclear.

On the other hand, although it does not appear that any decisions have yet been made in response to the consultants' recommendations on the SADCDF and it unlikely that such an apex institution would ever become involved in providing retail services to small farmers, among the roles that it should be well placed to play are to raise and channel funds for regional development interventions – some of which could be agricultural – and to guide national and local-level financial service providers on policy and practice. It could also play a pivotal role in collecting data on and educating consumers of financial services. If it is correct that agreement has already been reached by MS about re-constituting the Development Bank of Southern Africa as regional institution, it would appear to provide a logical vehicle for managing such a fund and could make the prospect of establishing and operationalizing it quite immediate.

In identifying roles that it would be appropriate for a regional initiative arising out of the RAP to adopt, it is noted that most on-the-ground interventions are inherently the prerogative of national-

or local-level institutions. Nevertheless, substantial scope remains for regional-level action. From the policy issues identified (above) as important for the RAP to address, a corresponding set of interventions is identified, some building on SADC initiatives already in progress. The interventions are divided into two groups: (i) those that could be carried out by a non-bank institution and (ii) those that call for an institution with some banking powers.

(i) Those that could be carried out by a non-bank institution:

1. *working closely with other organizations whose goals are to improve access to and the appropriateness of agricultural/rural finance services in the region, such as CAADP, the Southern Africa sub-region (SACRAT) of the African Rural and Agricultural Credit Association (AFRACA) and– if it is established – the high-level body to co-ordinate and act as advocate for agricultural finance in Africa proposed in the Kampala Principles; where opportune, broadening, deepening and accelerating activities aimed at achieving these goals; liaising with relevant agricultural/rural financial institutions abroad, such as the FAO and IFAD*
2. *gathering and disseminating information on best practices in respect of norms, governance, risk management, regulation and monitoring/evaluation to national-level bodies/central banks*
3. *promoting, guiding, co-ordinating and otherwise supporting national-level agricultural/rural 'financial consumer' data collection and research on financial inclusion*
4. *developing regional training facilities help national bodies/central banks educate and build the capacity of retail financial services providers to take advantage of innovations in agricultural/rural finance; also to help smaller clients to understand and manage the use of financial services*
5. *researching, encouraging and guiding experimentation with, among others, (i) tenure reforms that could help improve lender security and/or repayment ability (in conjunction with SADC's LRSF), (ii) alternatives to land-based forms of collateral, and (iii) private sector support initiatives for small-/medium-sized farmers; securing (additional) resources for such initiatives; promoting promising new models to policy-makers*
6. *facilitating the development of innovations to broaden outreach and/or reduce transaction costs (particularly those with cross-border potential), such as 'branchless banking' by mobile phone or through regional retail store chains, petrol stations and supply chain-based finance; drawing attention to the need for good public policy to govern such initiatives, for example, in respect of promoting competition and ensuring information/transaction security*
7. *exploring the feasibility and advisability of a regional agricultural commodity exchange, with accompanying information dissemination and trading account-based credit systems*
8. *collaborating with multilateral and bilateral offshore and SADC national- and local-level financial institutions in the design, phasing in and phasing out of subsidies and part-guarantees*
9. *advising on and helping broker the formation of public-private financial services partnerships, for example, to implement CAADP's proposed agricultural investment and enterprise development platforms and seed and fertilizer access systems, or for private sector banks to make and manage loans partly underwritten by a regional/national body*
10. *directing as many as possible of the activities that it engages in specifically towards assisting MS to implement their undertakings in respect of the elimination or reduction of gender discrimination*
11. *ensuring on-going impetus at country-level to develop an enabling, but appropriately regulated, environment and accompanying monitoring and evaluation activities.*

(ii) Those that could best be carried out by an institution with banking powers:

12. *raising offshore resources to capitalize or subsidize the current costs of agricultural/rural financial service providers, especially for innovations, and providing a conduit to national/local financial institutions for distribution and management of these resources*
13. *acting as part-guarantor of national- or local government-level loan facilities.*

A set of criteria (that should be broadly congruent with those adopted in the other RAP pre-feasibility studies) is then brought to bear to assess the priority of the thirteen interventions and the two roles, using an unweighted 0-5 scale to score the respective interventions in terms of each criterion. The criteria are: impact on regional integration: alignment with the RISDP and CAADP; alignment with RAP objectives and principles; impact on development; cost; risk; degree to which pre-requisites have been fulfilled; and leverage potential.

While the assessment is rough and ready and subjective, the results indicate strong support for both of the roles and all of the interventions (with the possible exception of no. 8) to be included in the draft RAP. If a regional development finance institution/bank does materialize before too long, it is greatly in both initiatives' favour that they could be located relatively quickly and inexpensively in existing institutions. No new bricks and mortar and only a limited number of new staff appointments need be involved and the potential for accelerating the achievement of the RAP's objectives would be substantial. This would represent a good return on a relatively small investment.

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CHAPTER 1. BACKGROUND AND TERMS OF REFERENCE

1.1 Background

In the Declaration on Productivity in 1999, in the Regional Indicative Strategic Development Plan (RISDP) in 2003 and again in the Dar-es-Salaam Declaration on Agriculture and Food Security in 2004, SADC noted the poor performance of the region's economy and in particular of agriculture, as the key producer, employer and income generator in most of the Member States' (MS) economies . A programme of measures to address the underlying causes was decided upon. In respect of agriculture and food security it was determined that these should aim at 'strengthening sectoral co-operation between SADC MS through the development of coherent policies and programmes related to crop development protection, storage, processing, utilization and trade'.

Accordingly, in August 2007 the SADC secretariat's priorities were revised, inter alia, to include the development of a Regional Agricultural Policy (RAP) to stimulate sustainable agricultural development and food security in the region. The RAP will define common objectives and measures to guide, promote and support programmes of interventions at the regional and national levels to achieve these goals. To increase commitment and accountability, and thereby the likelihood of achieving the desired outcomes, the RAP is to be a 'legally binding' instrument.

The first/scoping phase (RAP Phase I) in the formulation of the policy, begun in 2008 and completed in 2010, was to consult MS and other key stakeholder groups, such as organized agriculture, about the vision, objectives, ambit, key policy issues and priorities, defining characteristics, guiding principles, formulation and implementation processes and funding mechanisms for the RAP.

The second phase (RAP Phase II), commenced early in 2011, begins with a group of four 'pre-feasibility' assessments of the policy issues identified in Phase I as priority areas for intervention by SADC collectively, or by relevant MS individually. The four studies relate respectively to the three core 'pillars' of the RAP, as conceptualized, namely:

- production, productivity and competitiveness
- trade and markets
- financing and investments,

as well as to a fourth set of 'cross-cutting' issues, including:

- social/vulnerability factors, institutional factors and environmental factors.

1.2 Terms of reference

The essential common brief for the four studies, as defined in the respective formal terms of reference, is;

- to provide a brief synthesis of the current status and long term trends in the region in respect of the focus area of the study – in this instance agricultural/rural finance – highlighting the impact on economic development and regional integration
- to review the issues identified during the scoping phase, note possible policy gaps and articulate and strengthen the rationale for prioritizing these issues in the region within the overall agendas to advance economic development and regional integration
- to review and, where necessary, develop criteria that would be appropriate for prioritizing policy issues and interventions for the RAP
- to review relevant SADC protocols, agreements/declarations and related strategic planning processes, such as CAADP, to guide the alignment of the RAP with them
- to review SADC's current and, where known, planned interventions
- to identify and discuss the range of available options with regards to policy interventions for consideration under the RAP and undertake a preliminary assessment of the expected cost and development impact.

By decision of the Food, Agriculture and Natural Resources (FANR) Directorate of the SADC secretariat, under whose guidance the RAP is being drafted, the study relating to 'financing and investments' has been divided into two parts, focusing respectively on 'agricultural/rural finance, credit and insurance' and 'investment promotion, farmers' incentives and institutional factors'. This study concerns the first of these two sub-sets of issues.

In the discussion that follows, no strong distinction is made between 'agricultural' and 'rural' finance. 'Rural finance' encompasses financial products and services of all kinds supplied to clients for production – and consumption – of all kinds located in rural areas (however 'rural' is defined). Of course, in most such areas, agriculture is still the predominant production activity, although especially where smaller farmers are concerned, a surprisingly high percentage of production occurs in and around urban areas. A recent survey of micro-enterprises, including small farmers in South Africa (see section 3.2 below) found 37% to be located in the formal urban economy and a further 9% in informal urban areas, jointly accounting for a little less than half of the total.

If agriculture were confined only to the formal sector and agricultural financial services were supplied only by formal sector firms – banks, insurance companies, input suppliers and others – it would be important to distinguish clearly between finance for agriculture and finance for other rural activities. Because the risks inherent in agriculture are generally reckoned to be greater than for most other activities, the prudential requirements of lending and insurance are more stringent for farming and entail a commensurately stricter regulatory regime. This helps explain why general commercial banks are often reluctant to lend to farmers, an issue returned to later in the report.

However, most small farmers are part of the informal economy in their respective countries and most still rely primarily on informal sector entrepreneurs and organizations – micro-lenders, savings groups and others – for their financial services. Most, too, engage in farming as part of multiple-activity livelihood strategy, in which working and investment capital – whether internally generated or borrowed – is readily fungible between one activity and another. For such households and the providers of their financial services, it is not helpful to try to draw a clear distinction between agricultural and rural finance.

With the great majority of farmers in all SADC MS falling into this category, the looseness of distinction between ‘agricultural’ and ‘rural’ finance in this report follows. However, as the RAP is by definition an agricultural programme, and as one of the implicit goals of the programme is to assist those smaller farmers who wish to increase their earnings from agriculture to move along the continuum towards commercialization, the main focus of the report is on the development of financial services that are designed specifically for agricultural activities. The cash flow patterns, extended pay-back periods and insurance needs typical of many types of farming call for financial products that are structured quite differently to those appropriate for most (other) small enterprise and household needs.

This draws attention to the need for the RAP to be inclusive from a ‘size perspective’. In other words, important as small farmers are, the policy should not be exclusively about them. Without trying to define ‘size’ precisely, it is important too for the RAP to be aware of and, to the extent that they are not already adequately addressed, to cater for the needs of medium and larger farmers.

If one takes the ‘medium’ group to consist mainly of smaller farmers who, via one route or another, have ‘graduated’ into commercial production, i.e. to producing the greater part of their output for the market, then this is a critical group, even if the number of farmers concerned is small relative to the total farming body and the value of output is small relative to the total value of agricultural production. This is arguably the group with the greatest growth potential. Its needs for access to and appropriately geared financial services are only partly fulfilled (in contrast to large, fully commercial farmers). And several of the innovations in agricultural/rural finance that are now being developed (see sections 3.2 and 7 below) are likely to be more readily accessible and applicable to medium farmers than to most small farmers in the foreseeable future.

CHAPTER 2. YNTHESIS OF CURRENT STATUS AND LONG TERM TRENDS IN AGRICULTURAL AND RURAL FINANCE IN THE REGION

To lay the foundation for properly informed policy-making aimed at developing regional and national frameworks to improve access to and the quality of rural finance, the FinMark Trust (FMT) recently commissioned the University of Pretoria's Centre for Inclusive Banking in Africa (CIBA) to undertake an assessment of the state of agricultural/rural finance in six MS: Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe.

The main objectives of Phase 1 of the FMT study were to provide a solid information platform on the state of agricultural/rural finance in the six countries and to identify promising current initiatives to improve access/quality for possible assistance by FMT.

However, while the current status and trends vary from country to country, there are, nevertheless, a number of clear commonalities:

2.1 Institutional provision of agricultural/rural financial services

- ***Range of institutions:*** The wide range of financial institutions serving rural clients – from non-profit or mutual profit-sharing village savings and loan associations, savings and credit co-operatives (SACCOs) and NGO-based micro-financiers to regulated for-profit micro-finance institutions to commercial banks to public sector agricultural development banks – reflects the wide diversity of clients and motivations for serving their needs.
- ***Formal sector institutions:*** Of the financial services offered by formal sector institutions, the most widely used are the savings and transmission facilities through which remittances from household members employed in urban areas flow back to rural areas. In South Africa, public social security grants are a still larger source of urban-to-rural cash flows: more than 40% of the rural households that are the major beneficiaries of such grants receive payment electronically, through transmission accounts that now number in the millions. However, financial institutions, by and large, do not appear to make substantial efforts to extend initial savings- or transmission-based relationships with rural clients into subsequent lending or insurance relationships.
- ***Microfinance institutions:*** Micro-loans are less difficult to come by and are the main source of credit for most small farmers. However, they are usually unregulated and more expensive still than loans from formal sources, as well as being less suited to the needs of annual crop farming (although quite well-adapted to other farming activities, such as poultry and vegetable production). Micro-loans are able to supply only a small percentage of the agricultural sector's credit needs. The propensity of rural households to save is quite high, despite their low average income. Savings facilities offered by microfinance bodies, mostly private non-profit co-operative groups of savers/borrowers, are widely used as well as public institutions, such as national post office networks.

2.2 Constraints on access

- ***Poor access for farmers:*** Most small farmers in almost all MS find to access financial products and services difficult and/or unaffordable. Of the various categories of product/service (savings, credit/loans, transactions, insurance and foreign exchange), access to loans – particularly for long term needs – and insurance appears to be most difficult. Access to loans, both long term (typically for land purchase and/or fixed improvements) and short term (typically for inputs for annual crops), is constrained on the one hand by lack of collateral security and on the other by what most lenders regard as uncertain repayment ability, as well as by the relatively small number of financial service providers.
- ***Lack of collateral security*** is generally caused by the absence of freehold or other alienable rights, such as a long term lease, on the land on which would-be borrowers farm.
- ***Uncertain repayment ability*** arises from a complex of potentially adverse factors, such as climate variation, plant diseases and input/output market volatility (see section 3.1 below). The uncertainties around repayment ability are compounded by inaccessible/unsuitable/ unaffordable insurance options and by real or perceived difficulties in enforcing contracts.
- ***Urban orientation:*** Most formal sector lenders are geared up primarily to serve urban and larger farmer clients and have relatively few branches in rural areas.
- ***Poorly adapted risk management:*** Few urban-based banks have a prudential structure geared to respond to the higher risks of agriculture (which include higher levels of covariance) and there appear to be few public structures for regulating agriculture-specific formal sector finance; conversely, few financial institutions that operate in rural areas and that are not already engaged in the mortgage market (as many urban lenders are) have sufficient access to the long term capital market to enable them to make long term loans to rural clients without undue funding risk.
- ***Information asymmetry*** is a problem, both for financial service providers and for potential clients. Almost all existing and potential agricultural/rural financial service providers, public and private, are inadequately informed about the characteristics of small farmer client markets. Similarly, most potential small farmer and other rural clients are poorly informed about the nature, benefits, requirements/costs and risks of using financial services. The cost of acquiring this information is generally seen by both parties as being too high to justify the effort to obtain it.
- ***High cost of service provision:*** small farmers and other rural clients are widely and thinly dispersed by comparison to clients in urban areas, helping to make unit transactions costs higher than in urban areas, particularly for low-value transactions. Insurance, especially for small farmers, remains prohibitively expensive, because of the high inherent and covariant risks of agriculture, high administration costs and adverse selection and moral hazard difficulties.
- ***Foreign exchange constraints:*** For farmers in areas close to borders between MS, cross-border trade constitutes an important market for output. Informal cross-border trade of all kinds is estimated to make up between 30 and 40% of all intra-SADC trade and the Cross-Border Traders Association has more than 15 000 members. Trade in farm goods can be assumed to be an important component of the total flow of goods. While roads, vehicles and border procedures are problems common to all farmers/traders, the formal sector makes use of well-established import-export facilitating mechanisms to take advantage of nearby

export markets. However, smaller, informal sector farmers and traders are often hamstrung by the difficulties and high cost of buying/selling the foreign currency for/from transactions, as well as the personal security risks of carrying substantial amounts of cash.

2.3 Interventions to improve financial service provision

- ***Political commitment:*** All governments in the region have a commitment in principle to making access to agricultural/rural financial services easier for all farmers, particularly smaller producers, but have not found this easy in practice and consequently have made little progress (in common with governments in many other regions). The level of performance of many public sector agricultural/rural service providers is also questionable.
- ***Subsidies:*** In some countries, directed and/or subsidized agricultural credit and/or insurance advanced by public sector institutions are crowding out private sector and NGO financial services. These interventions, though well intended, also seem to have been largely unsuccessful in raising agricultural production, because they often do not reach the intended beneficiaries and because the fungibility of loans advanced in cash frequently results in their diversion into non-agricultural uses.
- ***Mobile phones:*** Although the level of penetration varies by country, the use of mobile phones not only in urban but also in rural areas is now widespread and is bringing about a revolution in financial services delivery, in terms both of outreach and of transaction cost reduction. Transmission of money by cell-phones is now well established in countries such as Kenya and agricultural micro-insurance is also now starting to be accessed in this way, as are savings facilities. For loans and foreign exchange transactions, challenges remain. A recent Consultative Group to Assist the Poor (CGAP) study found that mobile phones reduce the transaction cost of money transfer by an average of 54%. In South Africa, 72% of rural African households reported being within 15 minutes of a phone as long ago as 2006 (less than 3% of which was accounted for by fixed lines) (Statistics SA, 2009), while a 2010 survey found that 27% of rural mobile phone owners (mostly between the ages of 26 and 34) used their phones to access banking services and 12% to receive and send e-mail (Mobility 2011, in Business Report, 12 May 2011).
- ***Other technological advances:*** A range of other technological innovations have recently been developed that will make it possible for countries with relatively poorly developed physical infrastructures to leap-frog over different kinds of infrastructural hurdle. For example: biometric techniques to identify consumers of financial services (where there are national fingerprint identity banks); on-line systems and IT software to process the transactions of independent microfinance institutions and underpin automated teller machine (ATM) cards that enable informal cross-border traders to access foreign exchange; and networks of solar-powered rain gauges that report frequently and automatically, together with cell-phone sales, which have lowered the transaction costs and raised the credibility of micro-insurance to the point where the uptake is now increasing fast in countries such as Kenya.

2.4 Summary of enabling and disabling factors

Table 1 categorizes the factors that CIBA considers either 'enabling' (E) or 'disabling' (D) for the development of markets for agricultural/rural financial services in Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe and that can therefore be regarded as the major determinants of the current status and trends in those markets, just described.

Table 1: Factors that are enabling (E) or disabling (D) the development of agricultural/rural financial services in six SADC MS

	Botswana	Malawi	Mozam-bique	South Africa	Zambia	Zimbabwe
Societal /Environmental factors						
• Income inequalities	D	D		D		
• Fiscal and monetary policy	E	D	D	E+D	D	D
• Credit act/regulation		D	D	E+D		
• Exchange rate policy	E					
• Property rights		D	D	D	E	D
• Public sector capacity		D	D	D		
• Political commitment to rural development		E	E	E	E	
• Financial assistance policy	E+D					
• National development plan	E		E			
• Market liberalization	E		E	E+D	D	
• Public sector finance institutions	E	E	E	E	E	
• Rural finance support institutions	E	E	E	E		E
• Road infrastructure	D	D	D	E+D	D	D
• Communication infrastructure	E+D	D	E	E+D	E	E+D
• Electricity infrastructure	E+D	D	D	E+D	E+D	E+D
• Financial sector infrastructure	E+D		D			
Supply factors						
• Risk assessment procedures	D		D	D	D	D
• Product design (terms and conditions)	D	D	D	D	D	D
• Price			D	D	D	D
• Service delivery (Internet, telecommunication)	E+D			E+D	D	E+D
• Type of product	E		D	D	D	D
Demand factors						
• Concern about costs	E	D	D	D	E+D	D
• Preference for alternative providers	D	D		D		D
• Fear of being rejected	D	D	D	D		D

• Ignorance	D		D	D		D
• Opposition to use			D	D		

FinMark Trust, forthcoming

These factors and the characteristics of regional agricultural/rural financial markets that they underlie help to identify the policy gaps noted in section 3.2 below.

CHAPTER 3. ISSUES RELATED TO AGRICULTURAL/RURAL FINANCIAL MARKETS PRIORITIZED IN RAP PHASE I; POLICY GAPS; RATIONALE FOR PRIORITIZATION FOR RAP

3.1 Issues prioritized in Phase I

As the Synthesis Report on the scoping phase notes, 'insufficient investment in agriculture and related sectors is (acknowledged to be) one of the main causes for limited agricultural growth and food insecurity in the region' (p42). Both the public and the private sector are seen as having been unable or unwilling to undertake investment of the nature or scale required for the growth of either primary agriculture or secondary/tertiary processing to accelerate significantly.

Deficiencies in respect of public investment are considered in the pre-feasibility studies dealing with physical and institutional infrastructure. Participants in the scoping study attributed the lack of private investment in agriculture in part to difficulties that most farmers - particularly small farmers - have in accessing loan capital, especially long term loans.

The causes of these difficulties were diagnosed in several of the country reports. However, only 4 of the 11 countries that undertook national assessments identified access to finance as a priority issue for the RAP, although another 4 explicitly or implicitly expressed concerns about the shortcomings of the agricultural/rural finance provision in their respective countries, without highlighting them for priority consideration by the RAP. Table 2 summarizes the issues raised and policy measures proposed.

Table 2: Agricultural/rural finance policy/strategy issues noted in country assessments

country	ag./rural finance identified as high priority	Issue	policy measures/interventions proposed
Democratic Republic of Congo (DRC)	Yes	• lack of/unsuitable rural financial services • facilitate lower interest rates on loans	• programme of action begun to reform/revitalize financial services offered by Ministry of Agriculture • encourage/reinforce establishment by banks/other private sector/NGOs of financial services • set up specialized micro-credit facility for fishermen
Lesotho	Yes	• closure of agricultural development bank made access to credit very difficult for farmers/ rural communities • Lesotho Post Bank (LPB) provides savings/	• develop an enabling environment for rural/micro finance services • Rural Financial Intermediation Programme launched with IFAD: includes building capacity of existing member-based/co-operative rural finance groups,

		transmission facilities, but not credit	extending rural outreach of formal financial institutions, assisting LPB to develop credit facilities • Central Bank to establish rural savings/credit guarantee fund • 'agricultural/rural credit facilities on a regional level must be made available'
Madagascar	Yes	• access to affordable rural finance/credit	• establish supervisory body and regulatory framework for microfinance institutions (MFIs) • 'continued implementation of large scale projects to promote MFIs' • assist extension of existing networks of microfinance and banking institutions • promote/adapt rural credit through 'joint guarantees' • support alternative sources of finance
Malawi	No	• access to credit, savings, other financial services a major constraint, especially to microenterprises run by women • no/little collateral • financial products/ • services expensive	• microfinance policy and action plan to: ➢ to define principles, roles ➢ create an enabling environment and regulatory framework ➢ develop capacities of service providers, clients ➢ support development of microfinance infrastructure, network ➢ promote best practice by MFIs, donors ➢ increase co-ordination to improve service delivery
Namibia	No	• Communal Land Reform Act benefits only emerging farmers in commercial farming areas; excludes farmers in communal areas • formal banking network concentrated in urban areas • high unit costs to serve smaller farmers, because of low average value of transactions, sparse widely-spread	• consolidation of Agricultural (Commercial) Land Reform Act and Communal Land Reform Act being considered • establishment of microfinance bank being considered • 'Vision 2030 envisages a drastic decrease in the number of people dependent on agriculture'

		distribution of clients	
South Africa	Yes	• improving investor confidence, increasing domestic/foreign investment in agri-culture and rural areas • Comprehensive Agricultural Support Programme (CASP) for land reform beneficiaries used almost entirely for purchase of fixed infrastructure, machinery; little made available for purchase of recurrent inputs • small/micro farms/ agribusinesses struggle to get access to capital; causes include low market activity, high transactions costs, low levels of physical/ financial/human capital (in lending institutions), high interest rates, clients far from lending institutions, poorly personalized client services	• establishing integrated rural financial services system • Micro-Agricultural Finance Institutional Scheme of South Africa (MAFISA) set up, capitalized by government to facilitate lending to small/micro farmers/agribusinesses (but on-lenders have fallen far short of value/number of clients lending targets)
Zambia	No	• no specific public policy on microfinance • no financial institution provides credit specifically for agriculture	
Zimbabwe	No	• implicit difficulties in accessing farmers' short, medium and long term credit by smaller farmers; land in communal areas cannot be used as collateral and few farmers in Small Scale Commercial Farming Areas have freehold title to land • private sector/NGO agricultural lending/microcredit	• short term credit needs addressed through government's Input Supply Programme (but inputs, especially fuel, accessed by non-farmers; from 2009 government no longer able to finance programme) • medium term credit needs addressed through government's Mechanization Programme (but 'too politically inclined' - some farmers with no experience allocated

		facilities of all kinds almost completely destroyed by hyperinflation and government Input Supply Programme (supplied inputs to small farmers free of charge)	tractors/equipment) • no alternative policy/strategy to revive private sector/NGO microfinance (but collapse of government's Input Supply Programme and elimination of hyperinflation following currency 'Dollarization' may prompt revival)

Participants in the April 2010 RAP Regional Workshop attributed the difficulties that farmers have in accessing financial services to a mixture of supply-side issues that make them unattractive as a target clients, especially to formal sector financiers, and demand-side issues that reduce the ability and/or willingness of farmers to borrow for investment in their farms or seek other financial services. Again, these difficulties apply most strongly to small scale farmers, who make up the overwhelming majority of farmers in most, if not all, SADC countries.

Issues identified specifically (although not categorized as below) were:

(i) those negatively affecting farmers' willingness to invest in their farms and/or ability to repay loans:

- output price volatility or
- poor domestic terms of trade, arising from output price determination favouring urban consumers
- poor international terms of trade
- high climate-and/or disease-related risks of production failure
- unavailability of affordable risk insurance products/services
- poor/inaccessible public infrastructure

(ii) those negatively affecting lenders' security:

- poor collateral security, arising primarily from the prevalence of traditional land tenure systems
- poor contract enforcement

(iii) those negatively affecting both (i) and (ii):

- unpredictable public sector intervention and budgetary support.

In addition, with the RISDP and the Dar-es-Salaam Declaration having identified the development of agro-processing as an important objective, the Workshop highlighted the need for policies and interventions to support the current private sector-led EU-SADC Investment Promotion Programme (ESIPP), launched to promote the sector. Included in such suggested interventions were financing and risk mitigating mechanisms.

3.2 Policy gaps

The starting point for a properly informed assessment of agricultural/rural finance policy issues facing the region is, indeed, proper information about the state of this aspect of finance in the 15 countries concerned - to which, a survey of international experience should then be added.

Over the past decade or so, a number of studies of various aspects of agricultural/rural finance have been conducted in various SADC countries as well as one in sub-Saharan Africa as a whole. However, other than the latter, which was done 10 years ago, all focused on particular aspects and were not designed to be comprehensive.

While even a six-country study cannot claim to be regionally comprehensive, the patterns that have already begun to emerge from the FMT/CIBA study provide a substantial basis for identifying important policy issues to add to those already flagged by participants in the RAP development process. Based on the study's analysis of the status quo, current trends and underlying enabling and disabling factors, as well as on corroborating and elaborating evidence from the international literature, the following emerge as issues to be added to the RAP participants' 'policy priorities' list, in each instance calling for a specification of the role that policy-makers can play to assist. The issues are grouped by intervention category, although there is obviously a degree of overlap.

3.2.1 Creating an enabling political and macro-/meso-economic environment, *inter alia, by*

- closing the gap between political rhetoric and policy, for example, in respect of public sector commitment to rural development, and between policy and practice, for example, in respect of effective implementation of SADC's Free Trade Agreement (FTA)
- reviewing and evaluating the roles and the efficiency and effectiveness of public sector institutions and the advisability of privatization and/or of forming of public-private partnerships (PPP) to replace them
- identifying and, where possible, eliminating or ameliorating adverse macro-economic and other policies bearing on agriculture, for example, through an over-valued foreign exchange rate and tariff/non-tariff barriers to trade.

3.2.2 Improving access to financial services, *inter alia, by*

- *increasing the range of financial services accessible:* It is important to develop and make accessible non-loan financial products and services, in particular transmission, savings, insurance and foreign exchange facilities, appropriate for the needs and resources of small farmers and other clients in rural areas: These products and services can act as a basis for accumulating capital reserves to reduce agricultural risk aversion and for overcoming supply and demand information asymmetries, thereby laying the foundation for sustainable borrower-lender relationships. To achieve this, it is necessary to eliminate inappropriate eligibility requirements, such as making employment a prerequisite for opening a savings or transmission account, especially in countries with high unemployment rates.

- *eliminating gender-based financial disabilities:* One of the most fruitful potential catalysts for demand is the review and, as far as possible, the elimination of gender-based disabilities that inhibit the capacity of women to access and undertake financial transactions: This is especially important in the light of international evidence about the comparative reliability of women as clients and about the gains to the status of women in rural communities that accompany their use of financial services (see Chapter 5).
- *extending financial services outreach:* An increase in the number and geographical spread of bank and non-bank financial service providers can be engineered by the judicious use of incentives, such as time-bound subsidies and (part-)guarantees, while taking care not to prop up inefficient or ineffective institutions that crowd out more sustainable competitors. No less important is the creation of an enabling environment to assist, but regulate (i) the expansion of 'branchless banking' through, among others, mobile phone networks, the internet, petrol stations and retail merchandise (chain) stores, especially to facilitate access to financial services by informal cross-border traders and younger clients; and (ii) the uptake of the relatively low-cost micro-insurance products and services that are now evolving through the automated collection and analysis of climate data and the better organization of small commodity producers.

3.2.3 Reducing the cost/risk of financing, *inter alia, by*

- *broadening the range of collateral security options:* It is possible that amending and/or clarifying property rights may facilitate the use of land as collateral in certain instances, e.g. in areas formerly occupied by large scale commercial farmers now set aside for 'commercializing' smaller farmers, although mortgaging may be inhibited by fear of property loss or of arrest for debt default. But in general it can be expected that areas governed by traditional tenure systems will continue to be governed by those systems, even if they evolve somewhat, say, to allow for tenancy, without undermining the traditional right of the 'landlord' household to re-occupy 'rented out' land. As land under traditional tenure makes up the overwhelming bulk of most SADC MS' agricultural land, there is an urgent need to seek alternative forms of collateral, if loans for farming purposes are to be encouraged, and, in particular, to find 'collateral substitutes' that are accessible to smaller farmers. Among the options that emerge from international experience are: crop lien; commodity exchange-based finance; supply chain/input supply-based finance; using other assets, such as livestock, machinery or non-farm assets; combining any of these options with insurance; leasing; group reputation; and secured or unsecured graduated lending. None will offer the kind of universal, 'quick fix' for lender security that land-based mortgages have in many other parts of the world, especially for long term loans. But in combination with advancements targeted by the RAP's three 'core pillars', over the long haul they should ease, if not eradicate, the acute constraints on borrowing that most small farmers now experience, at least in respect of their short and medium term needs.
- *improving financial institutions' capital structures* (i) by the institution of sector-specific regulatory structures (that do not involve prudential requirements that are unnecessarily burdensome), thereby expanding and stabilizing the supply of agricultural lending, particularly by MFIs; and (ii) by developing capital markets so that rural lenders who are

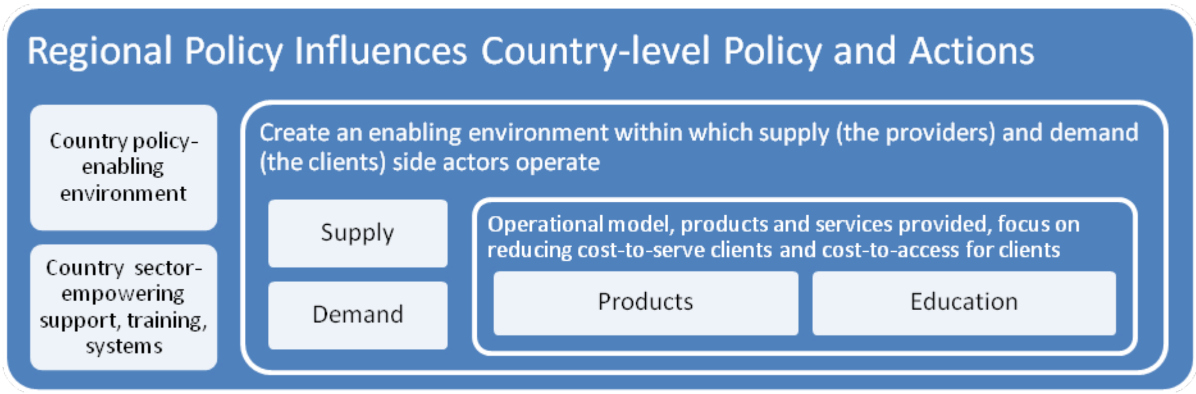
not already engaged in the mortgage market can gain access not only to shorter term liabilities, but also to the longer term liabilities required to enable them to meet the demand for longer term loans from agriculture without undue funding risks

- *reducing supply-retarding information asymmetries:* To better inform potential providers of agricultural/rural financial services about market opportunities and to reduce their reluctance to take advantage of these, it is valuable to gather and disseminate data about client characteristics, including:
  - number (of potential farmer clients)
  - location (province/district, urban formal/urban informal/rural formal/rural communal, …)
  - broad agro-climatic zones
  - income levels
  - gender
  - age distribution
  - location
  - education/literacy
  - possession of/access to mobile phone
  - proximity to potential 'branchless banking' service providers, e.g. traders, retail chain stores
  - obstacles to growth of agricultural activities
  - percentage of potential clients served
  - types of product/service used (savings, credit, transactional, insurance)
  - types of products/services sought
  - reasons for lack of access/usage
  - existing sources of loans/credit
  - nature and size of costs faced by actual/potential clients in accessing financial services, e.g. transport, interest, fees, stress/fear, …
  - nature and weighting of supply characteristics taken into account by consumers in seeking service provision, e.g. convenience, interest rate, service costs, familiarity/understanding, trust, ….
- *reducing demand-retarding information assymetries:* The 'education' of potential clients by gathering and disseminating information about the types, benefits, costs, methods of access and requirements of agricultural/rural financial products and services available is a prerequisite for stimulating the demand for formal financial services
- *capitalizing on facilitating/brokering opportunities for private sector non-bank institutions* for example, in reducing information asymmetries for banks and in increasing farmers' repayment abilities. The Private Agriculture Sector Support (PASS) programme which has been operating in Tanzania since 2002 illustrates: it offers small and medium farmers business development services (such as feasibility and market studies, investment appraisals and business plan formulation) and financial services which link farmers to banks and exporters and assist with securing services such input credit guarantees, as well as playing other valuable but more indirect roles such as facilitating the development of contract farming and farmer organizations. Begun as a public/donor funded project, it now operates as a non-profit trust, largely self-funded through operating surpluses and lists

among its achievements for farmer-clients improved access to financial services, increased volume/quality/value of production, greater employment along value chains and better incomes/living standards (Temu, 2010). A second outstanding opportunity is to exploit the potential for synergy between formal and informal sector financial/related institutions, for example, by using the systems and IT software that have now been developed to enable the centralized processing of independent micro-financiers' transactions and/or biometric identification technology, which should lead both to improved administration and to substantial savings on processing, distribution and risk management. And a third is to increase co-ordination and collaboration in input supply chains and output value chains to facilitate small producers' access to finance.

The issues listed relate to policy, strategy and day-to-day operations. A regional policy instrument can, at best, influence country level policy directly, but industry, supply and demand side improvements only indirectly. This process is illustrated below:

Figure 1: Regional policy influences



Chapter 7 elaborates on roles that are best suited for regional-level interventions..

3.3 Rationale for prioritization in RAP

How high a priority for the RAP any issue should take depends on the criteria that the programme chooses to bring to bear to assess the importance of issues. As per the terms of reference, consideration is given to such criteria below (see Chapter 4). The brief discussion here focuses instead on the in-principle reasons for agricultural/rural finance to be an important focus area for the RAP and therefore a key component of policy and strategy. Chapter 5 explains why this is of special importance for this pre-feasibility study, while section 3.2 and Chapter 7 expand on why specific interventions, such as those directed at increasing the range of substitutes for land as collateral, are consequent key priorities.

Agriculture is an important contributor to GDP and to household income in most SADC MS. Even in those countries in which it is a minor contributor – the two predominantly arid members (Botswana and Namibia) and the one predominantly industrialized member (South Africa) – for much of the population and certainly for most of the lowest income households, who are concentrated in rural or peri-urban areas, farming is still a major day-to-day 'subsistence' activity.

That it remains a subsistence activity, rather than a commercial income-earner, for households that have access to land and that most often also have internal labour resources that are quite sufficient to farm, can be ascribed to two main sets of factors: on the one hand, the low returns that farming currently offers and that therefore lead to an unwillingness to invest in agriculture, and, on the other, the internal lack of capital and the inability and/or reluctance to lend or borrow.

Given the size of the outlays required to cover their annual, medium-term and long-term needs, most commercial farmers the world over - especially annual crop farmers - find it necessary to borrow part or all of the funds needed. Typically, the outlays needed to put an annual commercial crop in the ground exceed the value of a farmer's land, making annual short term borrowings larger than one-off long term borrowings, even on a highly mortgaged property. Whatever improvements are made to raise the returns that agriculture offers and to encourage subsistence farmers to increase the volume of output that they market, without adequate access to and greater usage of borrowed capital, it will be difficult for most farmers to realize such returns, to produce more for the market and to improve food security.

Though perhaps not quite as directly, a similar logic applies to other financial services, such as for saving, insurance, transmission and even foreign exchange. Savings facilities make it easier to accumulate internal capital and encourage less risk averse behaviour by farmers; insurance services also promote less risk averse behaviour by both farmers and service providers; transmission facilities make it easier to send and receive money, thereby reducing costs and encouraging remote transactions, for example, to procure farming inputs; and foreign exchange facilities make it easier for farmers and traders to market output and buy other products across borders – a flourishing business in the region. Often the track record built up by using one or more of these facilities lays the foundations for lending/borrowing.

Even in South Africa, with its comparatively advanced financial infrastructure, CIBA's recent study found that 'access to finance' and 'cost of finance' were ranked third and fourth in importance, respectively, out of 14 categories in 'obstacles to growth' identified by a sample of the country's more than 600 000 small farmers. Importantly, the study also found that the majority (60%) of small business owners in rural areas (including farmers) were women, but that men are more likely to be 'banked'. It would appear either that women suffer particular gender-related disabilities in accessing rural financial services or that they have a particular reluctance to use such services.

It is the task of the RAP to address both sets of factors so as to accelerate economic development and regional integration. This component of the four pre-feasibility studies focuses mainly on the inability and/or reluctance to borrow. The core objectives of the study, therefore, are to identify interventions that can best be undertaken at a regional level that will improve:

- access to
- the quality and appropriateness of, and
- the usage of

financial products and services by all farmers – small, medium and large – as a catalyst for increasing investment in agriculture and related4 rural enterprises and, ultimately, the income of rural communities.

Beyond the in-principle reasons for prioritizing these objectives for the RAP, it should be noted that, to the degree that they are achieved, it will not only help fulfil RISDP and CAADP goals, but also those of the more recent G20 Multi-Year Action Plan for Development, for which financial inclusion spearheads the 9 pillar agenda and access to/usage of financial services by microenterprises headed by women is singled out as a key component.

This marks a return, though significantly differently conceptualized and orientated, to the priority given programmes to increase access to finance for farmers by governments and donors in developing countries in the 1980s and 90s, which subsequently fell into disfavour because of the difficulties experienced and the relatively low returns. At the time, the public sector was seen as the primary vehicle for mounting such initiatives. While it then became widely accepted that most financial services were better provided by the private sector, little emphasis was placed on programmes to support and incentivize private intermediaries, who were generally reluctant to deepen their involvement in high-risk agriculture. Current philosophy, by contrast, is founded precisely on support by the public sector for the development and supply of a broad range of retail financial services by the private sector to farmers of all sizes and rural households/enterprises.

The priority given to access to finance for agriculture, particularly small scale agriculture, by the RAP is doubly welcome because, as a policy issue, this has been treated as something of an orphan: neither Ministries of Finance, nor Ministries of Agriculture nor central banks in SADC countries have seen it as 'their baby'. As a result, it has not received the attention it deserves, especially given the importance of agriculture for employment, output, income, food security and foreign exchange in most MS. A well-formulated, well-marketed RAP could do much to redress this.

CHAPTER 4. CRITERIA FOR PRIORITIZING POLICY ISSUES AND INTERVENTIONS

The criteria that need to be brought to bear to assess the priority of issues and interventions for the RAP can be categorized conceptually into a number of levels.

At the highest level, the overall objective of progressively integrating SADC MS as a regional economic community applies. The extent to which an issue or intervention advances economic integration - through institutional, market, trade or some other relevant form of integration - is therefore of fundamental importance.

More specifically, the conceptual framework of the RAP agreed on at the Regional Workshop in April 2010, informed by the national assessments conducted by MS in 2009, identified:

- the three ‘core pillars’ and cross-cutting issues (noted in Chapter 1 above)
- the need for alignment with RISDP intervention areas (most immediately, ensuring food availability, access and safety; and the equitable and sustainable use of natural resources) and CAADP pillars (extending the area under sustainable land management and reliable water control; increasing food supply, reducing hunger and improving responses to food crises; improving agricultural research, technology dissemination and adoption; and improving rural infrastructure and trade-related capacities for market access)
- the objectives of the RAP (promoting (i) agricultural production, productivity and competitiveness, (ii) regional self-sufficiency, (iii) income growth for small farmers/fishers/foresters; (iv) trade and market development; (v) food safety; and (vi) sustainable use of natural resources)
- guiding principles of the RAP (subsidiarity, proportionality, progressivity, regionality, partnership and consultation, responsiveness to change, solidarity and market integration).

Possible policy issues and interventions therefore need to be prioritized according to whether, and to what degree, they form central or peripheral components of the core pillars and cross-cutting issues; align with the RISDP and CAADP; meet the objectives of the RAP; and fall within the RAP’s guiding principles.

Among the guiding principles, consensus at the Working Group meeting of 11 April 2011 (called to discuss the pre-feasibility study draft interim reports) was that those of primary relevance in the context of the RAP are: subsidiarity, regionality, proportionality and solidarity. In the context of improving access to, and the appropriateness of, agricultural/rural financial services:

- subsidiarity – meaning that ‘areas or issues addressed at the regional level should be only those cannot be addressed at a lower level, national or local, … i.e. regional initiatives (should be) support(ed) … only … where they add value to national level interventions’. This is of greatest relevance where interdependence between MS requires harmonization for a particular initiative to become effective. It is fortunate that there appear to be relatively few policy issues and interventions that depend on harmonization for their effectiveness, because the level of integration of monetary and fiscal policy required - for example in respect of regulation and subsidies - is still no more than a distant item on the regional integration agenda. However, the downside is that the scope for regional-level interventions also appears to be limited in the short to medium term.

- regionality – meaning that 'the regional level only deals with issues that concern two or more MS' – is relevant mainly in respect of economies of scale and external relations, for example in respect of educational initiatives and fund-raising.
- proportionality – meaning that 'action at the regional level should not exceed that which is necessary to achieve objectives of the RAP, and avoid imposing on Member States rules that are too stringent or efforts that are too great relative to those that would be reasonable or effective' – will become a concern only in the longer run, when a degree of monetary and fiscal cohesion is needed to implement initiatives (such as regulation and subsidies).
- solidarity – meaning that 'the region guarantees a minimum level of cohesion between its members and provides common financial, human and institutional resources to reduce the disparities that exist between the members' – could be used to justify devoting a disproportionate percentage of regional resources to help MS, who have, for example, not fulfilled the 'entry-level' prerequisites, such as data collection, for implementing 'higher level' interventions, such as targeted consumer education campaigns.

However, though seen as being of rather lesser importance for assessing the priority of issues and interventions for the four pre-feasibility studies as a whole, the remaining three RAP principles are all highly relevant for the improvement of agricultural/rural financial services. These are:

- progressivity – or 'moving forward gradually so as to take into account different national circumstances and particular interests' – which is especially important to bear in mind given the widely differing levels of financial infrastructure development in the various MS

- partnership and consultation – requiring that 'there is permanent involvement of stakeholders in the agricultural sector in the identification of solutions to constraints, implementation, monitoring and evaluation of the regional agricultural policy – which is critical given that, while regional-level policy frameworks and interventions are usually the prerogative of public institutions, most subsequent improvements on the ground are likely be implemented by private sector or NGO players. Indeed, initiatives introduced by the private sector and NGOs often lead regional action. Either way, at least consultation, if not public-private partnership, is needed to accelerate development.

- responsiveness to change – meaning that 'agricultural policy must be organic or evolving, rather than a static instrument, and must focus on a set of basic fundamentals and grow iteratively in response to experience and changing circumstances' – which recognizes that improvements often need to be implemented in sequence, only once prerequisites have been met. So, for example, transmission and savings accounts may well be seen as almost essential forerunners of loan accounts.

Beyond these, a number of generic developmental and budgetary criteria are also relevant. These include:

- expected impact (in terms of meeting RAP objectives)
- expected cost (against budget)
- expected impact relative to cost
- distribution of benefits (numbers, geographical spread of beneficiaries, manner/degree to which target groups benefit, …)
- immediacy, duration, self-sustainability of benefits
- inherent risks (nature, magnitude, potential consequences, …)
- degree to which prerequisites for implementation have already been met, in particular, capacitation of implementing governments/agencies
- potential for leverage by other policies/interventions, particularly private sector and donor interventions and policies/interventions emanating from other (aspects of the) core pillars; for example, better access to/more appropriate financial services should make interventions designed to incentivize investment more effective
- political/social appeal.

Ideally, for consistency of decision-making, these criteria should also all be weighted to allow for ranking, and each policy issue and set of accompanying interventions should be then be assessed and ranked using these weights. However, this is probably asking for a degree of rigour which is not objectively attainable in practice. The consideration given to prioritization in section 7.2 and Table 4 below is unavoidably subjective, rough and ready.

CHAPTER 5. RELEVANT SADC PROTOCOLS, AGREEMENTS/DECLARATIONS AND RELATED STRATEGIC PROCESSES

The protocols, agreements and declarations that over-arch the RAP formulation process as a whole were referred to in section 1, viz., the founding SADC Treaty (1992), the Declaration on Productivity (1999), the RISDP (2003) and the Dar-es-Salaam Declaration on Agriculture and Food Security (2004). Some other protocols – those on Fisheries, Forestry and Shared Watercourse Systems – are also relevant, though less directly.

Though it does not apply to agriculture specifically, the 2006 Protocol on Finance and Investment is also germane, although also only tangentially, as it focuses mainly on mechanisms to facilitate larger scale investments, particularly foreign direct investment (FDI). It does propose the establishment of a regional development finance institution (DFI), but primarily for the purpose of promoting such larger scale investments, some of which could be in formal sector agriculture, not for facilitating lending to small scale farmers. The issue of setting up a regional DFI is returned to in the next two sections (on current and planned SADC interventions and on options for policy interventions).

Still less agriculturally-specific, but in some ways most relevant of the protocols, is the 2008 Protocol on Gender and Development. Numerous studies the world over – some conducted in SADC countries – attest to the key role that women play in agricultural production and to the significantly better credit risk that they represent than men but, at the same time, to the disproportionately small share of credit that is nevertheless advanced to them (see, e.g. Norton, 2004, 328-330). A 1990 study of credit schemes conducted in 5 African countries, including Malawi, Zambia and Zimbabwe, found that women received less than 10% of credit directed to smallholders and only 1% of total agricultural credit (FAO, quoted in Norton, 2004, 329). Norton remarks that 'although (these findings are) … somewhat out-of-date, the pattern is still approximately the same today in many countries'.

Among the reasons for the pro-male bias are that;

- under many legal and customary systems, married (and often also unmarried adult) women are regarded as minors and cannot therefore apply for or make any decisions about loans on their own
- women often lack the literacy and numeracy to understand credit systems and financial transactions
- cultural barriers may limit women's ability to engage in financial transactions, especially in the formal sector, as well as sometimes restricting their mobility
- credit is in some instances channelled through organizations to which women cannot belong.

Though not yet signed and ratified by all MS, the Protocol on Gender and Development seeks to address these disabilities through:

- Article 6(2(b)), which declares that 'States shall … abolish the minority status of women by 2015'

- Article 7(b), which declares that 'States … shall ensure … equality for women (through) … equal legal status and capacity in civil and customary law, including … full contractual rights, the right to acquire and hold rights in property, the right to equal inheritance and the right to secure credit'
- Article 14(1), which declares that 'States shall, by 2015, enact laws that promote equal access to and retention in primary, secondary, tertiary, vocational and non-formal education in accordance with the Protocol on Education and Training and the Millenium Development Goals'
- Article 17(1), which declares that 'States shall, by 2015, adopt policies and enact laws which ensure equal access, benefits and opportunities for women and men in trade and entrepreneurship, taking into account the contribution of women in the formal and informal sectors', and
- Article 18, which declares that 'States shall, by 2015, review all policies and laws that determine access to, control of and benefit from productive resources by women in order to: (a) end all discrimination against women and girls with regard to water rights and property such as land and tenure thereof, (b) ensure that women have equal access to and rights to credit, capital, mortgages, security and training as men, and (c) ensure that women and men have access to modern, appropriate and affordable technology and support services'.

The challenge, as the Report of Study no. 4 (Social and Vulnerability Policy Issues, Instruments and Measures) notes, is to translate these noble measures into concrete outcomes.

However, what is perhaps most important for this study is the low profile given to agricultural/rural finance in most of the protocols and declarations. The Dar-es-Salaam Declaration commits SADC to 'increase the establishment and use of rural financial intermediaries' as one of 6 medium-term priorities (for 2004-2010). But even in the RISDP – which is very detailed in most other respects – the only references to the need for better agricultural/rural financial services are in section 4.12.4, where 'empowering women and small-scale farmers to have access to key productive resources, including land, credit and training' is identified as one of 18 strategies for improving food availability, and in section 4.12.5, where 'improving … infrastructure for rural industries, including provision of electricity, water and banking services' is mentioned as one of 5 strategies to transform subsistence agriculture to commercial production and to promote rural industries. And, although it might appear from Table 2 above that the 11 country assessments in RAP Phase I focused substantially on agricultural/rural finance, relative to most of the issues raised in respect of the other core pillars and the cross-cutting areas, financial services generally received little attention. There is no protocol on financial services in the region, whatever their client orientation.

It is to be commended that the 2010 RAP Regional Workshop also detected a critical gap in respect of access to financial services and identified 'agricultural/rural finance, credit and insurance' as key issues for one of the pre-feasibility studies to investigate, as part of the RAP formulation process. There is therefore a clear need for this study not only to identify priority policies, interventions and measures for increasing access to, and the range and appropriateness of, agricultural/rural finance products and services, but also – and in particular – to explain, with exceptional force and clarity, the rationale for prioritizing these,. It is trusted that section 3.3 does this satisfactorily.

In contrast to the RISDP, CAADPs' Pillar 2 – focused on improving rural infrastructure and market access – is quite explicit about the importance of access to appropriate financial services as a key to agricultural and rural enterprise (ARE) growth and gives extensive coverage both to the causes of the current low level of access as well as to measures to address the problem, which form a core component of the programme's overall strategy to develop agricultural value chains. Though not given as much prominence, the same issues are again raised in Pillar 3, in the context of improving household food security.

Pillar 2's agenda comprises four strategic thrusts, the third of which relates to 'value chain development and access to financial services'. The analysis underpinning the strategy notes: 'value chain development is impossible without adequately functioning financial institutions to provide funding for investment and business operations across the various segments (of the chain) … financial institutions in most African countries … lack the skills to assess and manage risk related to lending to agricultural production, processing and related … AREs … these constraints not only limit … access, but also add to the cost of credit … AREs, conversely, lack the knowledge or skills to produce accurate information presented openly and transparently' (CAADP, undated, 3).

To address these shortcomings, Pillar 2 prioritizes the establishment of:

- (public-private) partnerships and alliances to improve lending institutions' knowledge of ARE's strengths, needs and risks
- lending facilities that adequately cover ARE's working capital needs, and
- long-term funding to support investments needed in plant and equipment.

Lead activities identified include:

- *the formation of agricultural investment and enterprise development platforms* - public-private partnerships (PPPs) and business-to-business (B2B) alliances to boost agricultural value chain development; five such platforms are proposed for Common Market for Eastern and Southern Africa (COMESA) countries and another five for Economic Community of West African States (ECOWAS) countries; priorities for the platforms are to remove regulatory, technical and financial obstacles to enterprise growth and to develop the commercial infrastructure and skills needed to facilitate the integration of small farmers into value chains
- *the development of seed and fertilizer access systems* – PPPs and B2B alliances along the respective supply chains aimed, on the one hand, at lowering transactions costs, facilitating access to finance and expanding distribution networks and, on the other, at building the capacity of small farmers to organize themselves, to understand the value, mechanics and data necessities of finance and to manage the collective procurement of seed and fertilizer.

These activities target 'key areas … that respond to needs that are broadly shared across countries and regions, that … require collective action and (that) lend themselves to economies of scale'. They are also intended to serve as the basis of Pillar 2's agenda at the country and regional levels.

The most recent strategic process related directly to the development of agricultural and rural financial systems in SADC is the formulation of a compact set of founding principles for increasing the level of financial inclusion in Africa, particularly in rural communities, whose livelihoods depend so heavily on agriculture. As the product of an inclusive gathering of interested parties at a conference organized by Making Markets Work for Africa (MFW4A) in Kampala, Uganda (in June 2011), they have become known as 'the Kampala Declaration on Agricultural Finance' or simply 'the Kampala Principles' (www.mfw4a.org).

In addition to endorsing (explicitly or implicitly) all of the policy needs identified above and all of the interventions identified below – as well as extending into areas not broached in this report – the principles emphasize the need to 'address … the strengthening (of) … Agricultural Finance policy … through establishing a specific high-level co-ordination body and by recognizing a single entity as the advocate for Agricultural Finance' (capitals in the original).

CHAPTER 6. SADC's CURRENT AND PLANNED INTERVENTIONS

Table 2 above lists national-level interventions either current or planned by eight MS: the DRC, Lesotho, Malawi, Madagascar, Namibia, South Africa, Zambia and Zimbabwe. In most instances, it is not known at this point which of these interventions actually commenced, which are still in operation, which have been successes or failures and what lessons have been learned.

Beyond any lending or insurance initiatives that may form part of ESIPP (also unknown at the time of writing), no regional-level interventions in SADC specific to agricultural/rural finance are mentioned in either the country assessments or the Synthesis Report, although there are, of course, many other regional interventions, such as the formation of the FTA, that have an indirect bearing on agricultural/rural finance. These are noted and analysed in other pre-feasibility studies. The Synthesis Report also considers a number of processes of regional integration that have been or are being followed elsewhere in the world, notably in West Africa, and that may guide the planning of interventions in SADC in the future. These are considered briefly in Chapter 7.

Though not noted in the country assessments or the Synthesis Report, of immediate potential relevance is the SADC Land Reform Support Facility (LRSF), established in 2003 to assist MS in developing and implementing agrarian reform policies and programmes. Given the influence of land tenure systems on the use of land for collateral security, the activities of this unit could be playing a leading role in facilitating farmers' access to credit, but it is unclear what role, if any, it has actually played in this respect. Tenure reform, in as far as it has occurred, has remained firmly the domain of national initiatives and there do not seem to be any indications that significant changes are in the offing anywhere in the region. This is regrettable because even comparatively minor changes that would in no way undermine traditional tenure systems, such as those referred to in section 3.2 above, could help to advance agricultural productivity and farmers' capacity to save, secure insurance and repay loans.

Also of considerable potential relevance is the investigation into the advisability and mechanics of establishing an SADC Development Fund (SADCDF) recently conducted for the regional secretariat by a group of consultants. The intention to develop such a fund originated in an amendment to the SADC Treaty in 2001 and was given fresh impetus in 2006 with the signing of the Protocol on Finance and Investment, following which the consultants' report was commissioned.

One of the important findings of the report was that, in addition to the two agreed windows for promoting regional integration and trade, on the one hand, and infrastructure development, on the other, a third window should be set up to cater for 'social' investments. Although part of the motivation for this is to incorporate the activities of the Special Funds already in existence for assisting regional HIV/AIDS, water and mining initiatives, the recommendation left the ambit of such a window open, making the inclusion of agricultural initiatives a possibility. As an apex institution, it is unlikely that a body such as the SADCDF would ever be involved in retail lending, especially not to small farmers, but roles, for example in raising funds and in guiding national and local-level financial service providers on policy and practice, could reasonably be envisaged (Chapter 7 below elaborates). Significantly, the SADCDF is seen by the consultants as playing a central role in mobilizing domestic and external funding, but there is no mention of its playing any kind of regulatory or educational role.

A further firm recommendation of the report was that the management of the SADCDF be entrusted to the most competent DFI in the region, noting that the Development Bank of Southern Africa (DBSA) was already managing and providing corporate services support for the Project Preparation Development Facility, established essentially as a forerunner of a fully-fledged SADCDF. In this regard, it is noteworthy that, although a confirming public announcement has yet to be made, an agreement is understood to have been reached by SADC MS on the transformation of the DBSA from a South African registered company into an appropriately constituted regional DFI. Draft legislation to facilitate this is believed to have been prepared and may be presented to Parliament in South Africa before the end of 2011.

CHAPTER 7. OPTIONS AND PRIORITIES FOR RAP POLICY INTERVENTIONS

7.1 Roles appropriate for a regional-level institution

The only interventions considered in this discussion are those that are best undertaken at the regional rather than the national level. Not only does this accord with fundamental logic, but it gives effect to arguably the most basic of the eight guiding principles for the RAP, namely, 'subsidiarity' (see Chapter 4).

Almost without exception, the primary implementation level for all of the interventions identified above, is either the national or the local level, and, as already pointed out (see also Chapter 4), in the absence of a high level of monetary and fiscal co-ordination between MS, most the roles that national- and local-level financial institutions play and the decisions that they make remain their prerogative. Nevertheless, as the discussion below indicates, there are a number of important potential roles that a regional-level financial institution can play, depending, in part, on whether it has the status of a bank or not.

Relative to other aspects of the RAP, the April 2010 Regional Workshop suggested few options for policy interventions relating directly to the 'agricultural/rural finance, credit and insurance' pre-feasibility study. In fact, only one was proposed, namely, 'provid(ing) enabling policies … to support private sector driven agro-processing development strategies in areas including … financing and risk mitigation'. The paucity of suggestions is indicative both of the inherently national or local nature of most options for intervention and of the lack of success of so many of the interventions aimed at increasing the access of small farmers to agricultural finance throughout the developing world. CIBA's report on rural finance in Southern Africa to FMT refers to a depressing list of such failures in the region.

It is important to understand why most options for increasing small farmers' access to credit/loan finance are inherently national- or local-level issues and why they are problematic even at these levels. This is not only to help circumscribe what could validly be on a short- to medium-term regional agenda to assist national and local credit-facilitation initiatives, but also to explain why interventions that are inappropriate at the regional level now, may gradually become more appropriate in the longer term. Also, to be aware of why the same concerns may not apply with equal force to other financial services, such as savings, transmission/transactional facilities and even insurance, thereby making them better suited to more immediate regional intervention.

In section 3.1 it was noted that lenders of all kinds need to satisfy themselves of borrowers' ability to repay loans and of the security of their loans in case of default. The best form of security is reckoned by formal sector lenders to be transfer (to them) of title to an asset (owned by the borrower or a third party surety) whose market value exceeds the amount lent, during the currency of the loan. Most often this is a farmer's land and many formal sector lenders will insist on using land for collateral, not just for long term loans but also for short-term credit, preferring it to much less certain alternatives. Even for medium term loans, typically for machinery or livestock, many lenders again insist on using land as collateral because, unlike machinery and livestock, it is not mobile and is therefore less prone to 'disappearing' in instances of default.

If the land is not marketable, as is the case in most parts of SADC countries where small-scale farming is located, other sufficiently valuable marketable assets may be substituted, but these are not often available in low income households, making formal sector institutions unlikely to lend. But the key point here is that the marketability of land is determined either by law – a national prerogative in a democracy – or by local custom. Either way, the marketability of land would seldom, if ever, be an appropriate issue for intervention by regional authority and trying to change traditional systems of land title is difficult under any circumstances. If it could lead to forfeit by longstanding occupants arising out of a commercial transaction, changes to traditional systems of tenure are likely be resisted more strongly than ever. It is necessary to approach the facilitation of lending in other, more oblique ways - a matter returned to below.

If the loan is small enough and the borrower(s) is/are sufficiently well known to the lender, the latter may be prepared to risk lending without securing the loan against another asset contractually. Micro-lenders often operate on this basis, relying heavily on local knowledge. A market as local and informal as this is hardly the place for direct intervention by a body as remote and formal as a regional authority.

How, then, could regional interventions assist in improving access to and the appropriateness of agricultural/rural financial services? First, it is important to recall that such services are not confined only to lending: facilities for savings, transactions, foreign exchange and insurance are also very much in demand and, critically, are not hamstrung by difficulties with collateral. It is not surprising, therefore, that CIBA's 2010 rural finance study showed that 49,9% of small farmers in South Africa are 'banked' (i.e. use formal sector financial services), but that only 5,6% access credit through this channel, whereas no less than 48,3% and 48,1% use banks' savings and transactions facilities, respectively, and 29,8% have formal sector insurance cover. The relative emphasis is similar for small rural enterprises as a whole, though the percentages are a little lower in each case. In Botswana, the picture is much the same for rural clients: 48% banked, with 45% using the sector's facilities for savings, 36% for transactions, but only 17% for credit.

In all SADC countries, especially in those in which agricultural/rural financial services are less advanced, regional-level interventions are likely to add most value by focusing initially more on building the supply of savings, transmission/ transactions, foreign exchange and insurance services than on credit. Over time, as these services improve, they can be expected to gradually reduce the difficulties holding back loans. In particular, improvements to insurance products and coverage will make it easier to replace land by other forms of security, such as crop lien for short term loans and machinery and livestock (the items purchased or others) for medium term loans. Experience also suggests that, once a client has used savings and transactions facilities, information asymmetries recede for both parties, increasing the likelihood of success of a subsequent borrower-lender relationship. Through interacting at the savings and/or transactions level, financial institutions accumulate more knowledge about the client, thereby mitigating adverse selection and moral hazard risks, while clients, for their part, become more familiar with institutions' requirement and procedures.

The same can be expected for many of the interventions relating to the other 'core pillars' that the RAP may undertake: to the extent that such interventions increase the level and certainty of income, they will improve farmers' repayment ability. Also, to the extent that they aid the accumulation of assets, they will add to the sources of security that are alternative to land.

The nature of the clientele to be served – individuals and small scale farms and other business enterprises – provides further insight into the sorts of intervention that are best suited to a regional agricultural/rural financial initiative. Serving large numbers of small clients is, by definition, what retail banking/financial services are about and there are few examples that come to mind of successful retail rural banking/financial services institutions run by the public sector. Few would disagree that this is inherently private sector (for-profit or not-for-profit) terrain and that the main role of the public sector – national or regional – is to find and implement appropriate initiatives to accelerate the growth and improvement of private sector-led financial services for farmers of all sizes and rural communities.

Given this 'demarcation of territory', Table 3 sets out a number of roles in which an apex regional agricultural/rural financial institution or institutions could add substantial value, some of which would require limited banking powers, and relates these to policy issues identified in Chapters 2, 3, 5 and 6.

Table 3: Roles for an apex regional agricultural/rural financial institution(s)

role no.	**policy issue(s)**	**related primarily to supply (S), demand (D), enabling environment (E)**	**intervention**
7.1.1 roles that could be carried out by a non-bank institution			
1.	policy strengthening	S	working closely with other organizations whose goals are to improve access to and the appropriateness of agricultural/rural finance services in the region, such as CAADP, the Southern Africa sub-region (SACRAT) of the African Rural and Agricultural Credit Association (AFRACA) and – if it is established – the high-level body to co-ordinate and act as advocate for agricultural finance in Africa proposed in the Kampala Principles; where opportune, broadening, deepening and accelerating activities aimed at achieving these goals; and liaising with relevant agricultural/rural financial institutions abroad, such as IFAD and the FAO

2.	policy strengthening, harmonization	S	gathering and disseminating information on best practices in respect of norms, governance, risk management, regulation and monitoring/evaluation to national-level bodies/central banks, partly to assist policy and practice harmonization (a prerequisite for greater regional financial integration)
3.	supply-inhibiting information asymmetry: access, product appropriateness, risk management, cost reduction	S	promoting, guiding, co-ordinating and otherwise supporting national-level agricultural/rural 'financial consumer' data collection and research on financial inclusion
4.	institutional capacity building; client capacity building; demand-inhibiting information asymmetry	S, D	developing regional training facilities to help national bodies/central banks educate and build the capacity of smaller financial services providers to take advantage of innovations in agricultural/rural finance; also to help smaller clients to understand and manage the use of financial services
5.	risk management, product appropriateness, access, cost reduction	S, D	researching, encouraging and guiding experimentation with, among others, (i) tenure reforms that could help improve lender security and/or repayment ability (in conjunction with SADC's LRSF), (ii) alternatives to land-based forms of collateral, and (iii) private sector support initiatives for small-/medium-sized farmers; securing (additional) resources – financial and human – for such initiatives; promoting promising new models among policy-makers
6.	access, product appropriateness, cost reduction, risk management	S, D	facilitating the development of innovations to broaden outreach and/or reduce transaction costs (particularly those with cross-border potential), such as 'branchless banking' by cell-phone or through regional retail store chains, petrol stations and supply chain-based finance, but also drawing attention to the need for good public policy to govern such initiatives, for example, in respect of promoting competition and ensuring information/transaction security
7.	risk management,	S	exploring the feasibility and advisability of a

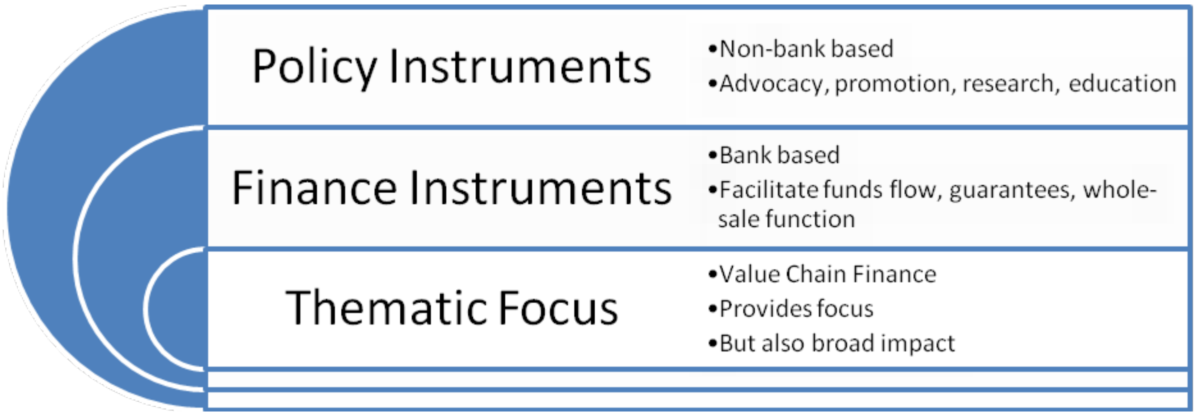
	cost reduction, access, product appropriateness,		regional agricultural commodity exchange, with accompanying information dissemination and trading account-based credit systems
8.	risk management, cost reduction, access	S	collaborating with multilateral and bilateral offshore and SADC national- and local-level financial institutions in the design, phasing in and phasing out of subsidies and part-guarantees
9.	institutional capacity building	S	advising on and helping broker the formation of public-private financial services partnerships, for example, to implement CAADP's proposed agricultural investment and enterprise development platforms and seed and fertilizer access systems, or for private sector banks to make and manage loans partly underwritten by a regional/national body
10.	demand-inhibiting social inequality, risk management	D, E	directing as many as possible of the activities that it engages in specifically towards assisting MS to implement their undertakings in respect of the elimination or reduction of gender discrimination
11.	policy strengthening	E	ensuring on-going impetus at country-level to develop an enabling, but appropriately regulated, environment and accompanying monitoring and evaluation activities
7.1.2 Roles that could best be carried out by an institution with some banking powers			
12.	cost reduction, risk management	S	raising offshore resources to capitalize or subsidize the current costs of agricultural/rural financial service providers, especially for innovations, and providing a conduit to national/local financial institutions for distribution and management of these resources
13.	risk management, cost reduction	S	acting as part-guarantor of national- or local government-level loan facilities.

As interventions 12. and 13. are both mentioned specifically by the West African regional agricultural policy initiative, ECOWAP, as part of its strategy to finance regional and national agricultural investment plans, it would appear that some form of supra-national agricultural bank is envisaged for that region. If the DBSA does become a formally constituted regional bank and if it re-opens the agricultural finance window that it operated until the middle 1990s, it would be well placed to take on both roles in SADC, as both would involve 'wholesale banking' to a relatively small number of large public or semi-public sector clients, which the bank is well geared up to handle.

To provide a single focus for all of these initiatives, it may help to centre them on improving agricultural value chain finance, with all of the interventions at policy-, industry-, supply- and client-level that this entails. This approach will provide a unifying methodology, as it encompasses the broader enabling environment, the entire value chain, from input suppliers to consumers, as well as the various services that influence the efficiency, effectiveness and outreach of delivery at all of these levels.

Figure 2 summarizes the roles of such an institution(s):

Figure 2: Roles of a proposed regional institution(s)



7.2 Prioritization of roles

In essence, only two measures for the region are being proposed:

- the establishment of a (non-bank) institution whose functions would be liaison, research and development (desk and action-based), education, dissemination, advocacy, brokering and advice – all with the goal of developing the supply, demand and enabling environment for agricultural/rural financial services at the macro-, meso-, micro- and client-levels in SADC MS; the natural partners at national-level for all of these activities would be the respective central banks; to save time and, quite likely, cost, these functions could be outsourced to an existing specialist agency or agencies
- the inclusion of a specialist agricultural/rural finance arm in whatever form of regional bank or development fund the region may decide to set up.

If the 13 possible interventions outlined in section 7.1 are prioritized respectively, the strength of the case for prioritizing the two measures may be assessed. This is done in Table 4 (Appendix 1), using an unweighted scale of 0-5 to rate each of the interventions in terms of the RAP-specific and generic criteria identified in Chapter 4 above, grouped into 9 categories:

- the degree to which they assist regional integration
- alignment with RISDP and CAADP goals
- alignment with RAP goals
- consistency with RAP principles
- impact (size, distribution of benefits to small/medium/large farms, duration, immediacy)
- cost
- risk
- the degree to which pre-requisites have been met
- leverage potential.

(Table 4: Priority assessment of options for regional intervention)

(Appendix 1)

While the assessment is acknowledged to be both rough and ready and subjective, the results are instructive. Out of a possible score of 9x5=45, all but one of the possible interventions (no. 8) come out at 34/45, i.e. a rating of 75%, or better. And the average both for interventions 1 – 11, (relating to the 'non-bank institution' role) and for interventions 12 – 13 (relating to the 'agricultural/rural finance window in a regional bank' role) was slightly above 35/45, or 78%.

7.3 Conclusions

On this basis, it can be concluded that:

- while **most interventions** to increase the impact of agricultural/rural financial services in the region **remain the prerogative of national- or local-level bodies,** there is **a strong case for the RAP to include the establishment both of (i) regional non-bank strategic and operational support capacity and (ii) limited regional apex institutional banking capacity and all of the intervention options listed in Table 4**
- particularly if a regional development finance institution/bank does materialize before too long**,** it is greatly **in both initiatives' favour that they could be located relatively quickly and inexpensively in existing institutions** – the first in one or more development research/facilitation agencies and the second in the regional development finance institution/bank**;** no new bricks and mortar and only a limited number of new staff appointments need be involved
- the **potential for accelerating the achievement of the RAP's objectives would be substantial**
- this **would represent a good return on a relatively small investment.**

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APPENDIX 1

Table 4: Priority assessment of options for regional intervention

	PRIORITY ASSESSMENT CRITERIA (score/5)									
intervention	**regional integration**	**alignment to RISDP, CAADP**	**RAP objectives**	**RAP principles**	**impact (size, distribution, duration, immediacy)**	**cost**	**risk**	**prerequisite fulfilment**	**leverage potential**	**TOTAL**
Those that could be carried out by a non-bank institution										
1. working with bodies such as AFRACA, CAADP, IFAD and FAO	would help integrate regional research, education, advocacy, etc. efforts, as well as strengthen relationship with 'gate-keeper' continent-wide and other key internation-al and local organiz-ations (5)	should assist achievement of overall RISDP, CAADP goals, al-though ag. finance, per se, not pro-minent in their agendas (3)	should help directly, if only over time, to achieving goals (i), (ii) and (iii) (4)	could be done at country level, but regionality advantages include substantial economies of scale, better basis to develop relation-ships with external counter-parts; if intelligently conducted, should accord well with all other principles (5)	impact in terms of on-the-ground benefits only indirect, but could greatly assist laying of foundation for future realization of widespread benefits to farmers, rural communities (4)	cost of col-laboration minimal – limited to staff time, travel, accommodati on (5)	could become entwined in intra- and/or inter-org-anization politics; could be delayed by slow/bur-densome arrangement and decision-making (3)	agreement, support from key MS stake-holders needed; not expected to be contentious (4)	short-term: could possibly generate research, education, etc. capacity of value to other 'core pillars'; longer term: should accelerate on-the-ground ag./rural finance improvements that would assist achievement of other core pillar goals (3)	36/45
2. best practice dissemin-ation	could help integration of ag./rural financial services in long run (3)	as for 1. above (3)	as for 1. above (4)	as for 1. above (5)	as for 1. above (4)	cost of dissemination minimal; limited to staff time, travel, accommodati on (5)	no significant risks evident (5)	setting up of SADC institution only pre-requisite; could easily be out-sourced (5)	in long term, should accelerate on-the-ground ag./rural finance improvements that would assist achievement of other core pillar goals (3)	37/45

3. collecting data on ag./rural financial consum-ers	as for 2. above (3)	as for 1. above (3)	as for 1. above (4)	as for 1. above, except that no obvious advantages in terms of developing relation-ships with external counter-parts (4)	as for 1. above (4)	cost of essential primary data sampling could be quite high (3)	could be quite a lengthy exercise and/or data quality could be quite poor, if not properly managed (4)	almost certainly best out-sourced (not difficult) (5)	as for 1. above, but adequate profiling of ag./rural consumers essential for properly informed decision-making not just for improving financial services but for a wide range of possible interventions for other core pillars (5)	35/45
4. educating financial services providers and potential clients	as for 2. above (3)	as for 1. above (3)	as for 1. above (4)	as for 3. above (4)	positive impact on both groups should start to be felt quite soon after launch of educational campaigns; depending on how latter are conducted, benefits should be broad and sustained (5)	costs could vary widely, depending on approaches adopted: for service providers, direct interaction, following collection and analysis of data about consumers, would probably be needed (costs mainly in high level staff time, transport, accomod-ation); for consumers, mainly media costs (advertising, broad-casting) (3)	positive impact could be blunted by poor approach to and/or poor conducting of education campaigns (4)	as for 2. above (5)	as for 1. above (3)	34/45

5. develop-ing new forms of collateral and private sector support for farmers	as for 2. above (3)	as for 1. above (3)	as for 1. above (4)	as for 3. above (4)	potentially very positive and sustained; benefits from new forms of collateral only likely to be felt in medium to longer term and to benefit medium-sized farmers sooner than smaller farmers, but private sector farmer support initiatives could generate benefits much sooner (5)	moderate, involving mainly higher and lower level staff time, travel, accommodati on; research component probably best outsourced; advocacy best retained in-house (4)	if R&D not competent-ly conducted, could lead to losses to and alienation of lenders; if insensitive to local circum-stances, could alienate farmers (4)	prior intelligence gathering on service provider and consumer circumstances, attitudes essential; should be combined with 3. above (4)	as for 1. above, but potentially with enormous long run benefits for other pillars (4)	35/45
6. and 7. facilitate-ing innov-ations with cross-border potential	could play a significant de facto role in regional integration (some chain stores and cell networks are already doing this); a regionally-based commodity exchange would be a major advance in regional integration; probably also easier and quicker to achieve than more formal public	retail chains and cell phones already add directly or indirectly to the availability and safety of food, at least at the consump-tion level; less positive for product-ion – contract farming and vertically integrated supply chains expanding but not without problems; a regional commodity	retail chains and cell phones should already be helping significantly to achieve RAP objectives (ii), (iv) and (v); contract farming and vertically integrated supply chains less so (4)	does not appear to infringe any RAP principles (5)	cell phones and retail chains already having strong positive, broadly distributed impact; high degree of sustain-ability; again, contract farming and vertically integrated supply chains less so; regional commodity exchange still quite far from realization (4)	costs to fiscus minimal; substantial costs to private sector, but investment would not be occur-ring if they weren't yielding good returns; growth of retail chains and, especially, cell phone rapid; contract farming probably only marginally profitable; a regional commodity exchange may	risks to public sector appear minimal in each instance; private sector risks mainly financial; consumer risks also appear minimal, provided competition and good regulation are maintained; for smaller farmers, inclusion in contract farming and in commercial supply chains carries significant	while these are all private sector-driven innovations, the public sector still has important roles to play, for example, in maintaining optimum levels of competition, regulation, cross-border trade administration and infrastructure provision (especially roads); public funding and public administration are often	collectively, these innovations are already contributing to the achievement of the goals of other core pillars, perhaps mostly in respect of trade, but also to investment and production (especially by South African corporates in SADC countries) (4)	39/45

	institution-al steps (5)	exchange would add further (4)				be quite hard to engineer (5)	financial risks, as does participation in commodity exchange activities (4)	deficient (4)		
8. possible subsidy and part-guarantee design and phasing	could help regional integration if uniformly applied (unlikely?) (2)	(temporary?) subsidies to financial intermedi-aries to be employed by ECOWAP to assist on-lending to small farmers (within RISDP and CAADP frame-works); would align well with CAADP Pillar 2's strategy to mobilize bank and non-bank support for increasing small farmer access to financial services; could also be used in SADC (5)	as for 1. above, but impact could be sooner (4)	as for 6. and 7. above (5)	potentially broadly distributed, but effect on volume of lending uncertain and sustainability of subsidies (intentional-ly) only short run; elsewhere in Africa, part-guarantees are proving successful in increasing outreach (4)	cost of design minimal (staff time, travel accommod-ation only), but cost of subsidies could be quite substantial (3)	risks of design process minimal; risks of subsidies, part-guarantees themselves substantial in terms of moral hazard and political difficulties of sticking to phasing out schedules; phasing out may also see withdrawal of subsidized/un derwritten intermedi-aries (3)	subsidies and directed/under written credit sometimes fail because of lack of strong, suitably adapted intermediaries; currently few in SADC MS, hence need to help establish new or re-gear existing financial institutions first (3)	as for 2. above (3)	32/45
9. brokering formation of public-private partnerships to improve ag./rural finance	as for 2. above (3)	as for 1. above (3)	as for 1. above (3)	depends on nature of partnership: if engineer-ed to facilitate flow of funds to region, assessment as for 1. above (5)	depends on nature of partnership; if to engineer loan part-guarantees or subsidies, could have broad positive impact (4?)	costs of facilitation depend on nature of partnership being brokered; limited to staff time,	depends on nature of partner-ship; facilitation risks lower for bilaterals (see 12, 13 below) than for multi-party	none evident (5)	depends on nature of partnership; if engineered to facilitate funds flows, assessment as for 2. above (3?)	35?/45

						travel, etc. (5)	partner-ships (4?)			
10. assist reduction of gender discrimin-ation	as for 2. above (3)	as for 1. above (3)	should help achieve RAP objectives (i) – (iv), as well as fulfilling important but difficult objectives of SADC Gender Protocol (5)	not easy to relate directly to RAP principles, but, if con-ducted in an intelligent and committed way, should accord well with RAP principles (4)	if conducted in intelligent and commit-ted way, positive impact should be widespread and enduring (5)	media and education costs could be substantial, if promotion-al campaigns conducted in earnest (4)	resistance of entrenched male/tradit-ional groups, as well as sheer magnitude of task of educating previously disempowere d women about financial services, likely to make task prolonged, politically sensitive (3)	none evident: media and education initiatives easily outsourced (5)	as for 5. above (4)	36/45
11. ensuring impetus in developing enabling environ-ments	as for 2. above (3)	as for 1. above (3)	should help directly in achieving RAP objectives (i) – (iv), although most impact likely to be felt only in medium to long term (4)	as for 1. above (5)	as for 1. above (4)	if carried out diligently, on-going interaction with national- and local-level, as well as external, financial institutions likely to absorb much high-level staff time, travel, etc. costs (3)	human resource, country politics, external uncontroll-ables could prolong effort needed to achieve results (4)	need for all MS to support; recruitment of capable staff; development of credibility (4)	as for 5. above (4)	34/45
Those that could best be carried out by an institution with some banking powers										
12. raising and acting as a	should help substantial-ly	as for 1. above (3)	as for 1. above (4)	as for 1. above (5)	as for 1. above (4)	if under-taken as an	non-fulfilment of	creation of regional	as for 5. above (4)	35/45

conduit for funds	in co-ordinating national-level financial institution-al mechan-isms (5)					add-on to a regional develop-ment finance institution created from an existing institution, e.g. if DBSA becomes regionally constitute-ed, cost moderate (4)	funding conditions by regional/ national/ local-level financial intermed-iaries; difficulties of phasing out of subsidies (see 8. above), even if subsidies to local-level lenders (3)	development financial institution; need for prior development of adequate network of competent retail ag./rural financial intermediaries (3)		
13. acting as part-guarantor of loans	as for 12. above (5)	as for 1. above (3)	as for 1. above (4)	as for 1. above (5)	as for 1. above (4)	as for 12. above (4)	non-repayment of loans by clients places stress on regional/ national/ local-level lenders; moral hazard, inform-ation asymmet-ries, multiple inherent risks of agriculture, especially for small farmers (3)	as for 12. above (3)	as for 5. above (4)	35/45