Re-thinking Rural and Agricultural Finance

Jason Agar
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Financial Sector Deepening Zambia was established in 2013 by the UK’s Department for International Development (DFID) with the mandate to increase financial inclusion in Zambia. FSDZ aims to support public and private sector efforts to develop an efficient and vibrant financial sector offering a wide range of financial services through diverse channels to individuals, households and micro, small and medium enterprises. FSDZ provides temporary and catalytic support to key stakeholders with the ultimate goal to support the development of a financial market system that works better for lower income communities.

The Zambian financial services market operates in an information-poor environment. In particular, there is very limited understanding of demand—how low-income households manage their financial lives and the type of financial services they need—and the service and policy implications that flow from this. Addressing these fundamental information constraints is at the heart of the market development challenge and therefore of FSDZ’s mission. FSDZ’s work is shaped by a common, central role: knowledge generation. To this end, FSDZ seeks to provide independent, high quality, insightful analyses on financial services (and especially financial inclusion). Specifically, it seeks to better understand demand and supply through quantitative research.
Re-thinking Rural and Agricultural Finance

Jason Agar
On the Author: Jason Agar is Managing Director of Kadale Consultants, a leading private sector development consulting firm in Malawi with a sister company in the United Kingdom.
INTRODUCTION

Rural and agricultural finance in Southern Africa, and beyond, remains a major challenge for the financial and developmental sectors. This short paper seeks to take a fresh look at the reality of rural livelihoods and rural living so as to ensure that we start from the right departure point. There are considerable misunderstandings and even myths among financial service providers about the nature of risk in rural and agricultural finance that can lead to missed opportunities.

In part, this thought piece draws on studies conducted by the Kadale Consultants, mainly in Malawi since 2001, for a multiplicity of funding organisations, notably USAID and FinMark Trust, working alongside several international consulting firms, notably ACDI-VOCA and Oxford Policy Management. However, the main ideas represent the thoughts and views of Jason Agar, distilled from his direct experiences over the last 15 years in Malawi and Southern Africa, and further back to his time as a VSO volunteer in Kenya in the early 1990s working with the ‘Jua Kali’ micro-businesses.

The purpose of this paper is to challenge thinking, generate debate and stimulate action by those who see opportunities for rural and agricultural finance.

Summary of Observations

1. ‘Rural’ and ‘agricultural’ are not the same and contain considerable diversity of finance need
2. Rural livelihoods and enterprise activities are more diverse than farming
3. Non-farm activities/enterprises are often dependent on the health of the farming economy
4. The seasonality of farming has considerable implications for on-farm and off-farm activity
5. Farming activities dictate the related finance needs which vary considerably
6. There are a range of natural, human-related and market risks in agriculture
7. Farmers generally grow multiple crops rather than specialise.
8. Households generally have a diverse ‘portfolio’ of livelihood activities beyond farming
9. Off-farm enterprises are not necessarily crop-specific
10. Enterprise owners (as well as farming households) adopt a portfolio approach
11. All households have ‘living’ needs that run alongside their ‘livelihood’ needs
12. There are important informal rural structures and solutions that are often overlooked

Observations on rural and agricultural living and livelihoods

1. ‘Rural’ and ‘agricultural’ are not the same and contain considerable diversity of finance need

The first point is perhaps obvious, but important to make – there is considerable overlap between ‘rural’ and ‘agricultural’, but they are not the same. Agricultural is talked about more than rural, perhaps because there is a provider bias towards finance for ‘productive’ activities. Rural can also be misleading as it conjures up images of small villages and farms; but it also encompasses the small towns and markets that sit in these predominantly rural areas. Rural is clearly different from ‘urban/city’, but there are population centres within predominantly rural areas where the activities and needs differ considerably from those who live in villages. The needs of people in these rural population centres are not the same as those in urban, but they are more like those in the urban areas than in the rural areas.

Key point: the diversity of rural areas needs recognising and not just equating to agriculture/farming

Jason Agar
2. Rural livelihoods and enterprise activities are more diverse than farming

Related to the above point, it is easy to think that farming is either the only or predominant livelihood/enterprise activity to address. Rural livelihoods are in fact more diverse.

Farming activity is clearly important and often dominant, but there are other forms of livelihood, including formal employment (by a farming or non-farming employer e.g. government, large company, etc.) and enterprise activity. The latter includes supplying goods/services to farming (e.g. seed), supplying goods/services post-farmgate (handling/trading/transporting/processing) and supplying goods/services that all people need (food, household goods, clothing, airtime, etc.).

In generic terms, these can be categorised as farm, off-farm and non-farm livelihood/enterprise activities. ‘Farm’ or ‘on-farm’ refers to farming activities covering crops and livestock. ‘Off-farm’ refers to activities that relate to farming, but are not farming, such as supply of goods/services to farmers (micro through to commercial) and handling of agricultural produce beyond the metaphorical farm-gate. ‘Non-farm’ relates to all other activities that are not directly related to farming.

There are many non-farm organisations/enterprises in rural areas, including food sellers, public service (teachers, medical staff), retailers/makers of household goods/furniture, services (bars, mechanics, etc.), transporters (people and goods), airtime sellers, mining, etc. that are often clustered in trading centres/small towns.

**Key point:** in rural areas, livelihoods include farming and farm-related livelihood/enterprise activity, but there is also a diversity of other non-farm livelihoods/enterprise.

3. Non-farm activities/enterprises are often dependent on the health of the farming economy

As noted, there is a diverse range of non-farm livelihood/enterprise activity. The customers or users of these non-farm products/services include a high proportion of people engaged in farm and off-farm activity; so non-farm livelihoods/enterprises are also highly dependent on the health of the farming economy and therefore also vulnerable to the effects of, for example, drought/flooding and falling/volatile commodity prices.

**Key point:** Although there is diversity in the nature of livelihoods/enterprises, there is also high dependence throughout the rural economy on farming.

4. The seasonality of farming has considerable implications for on-farm and off-farm activity

Due to the unimodal\(^1\) rainfall system and low use of irrigation\(^2\) then farm and off-farm livelihood/enterprise activities are highly seasonal. This means that activity and cashflow are also highly seasonal for farm and off-farm livelihood/enterprise activity. There are ‘narrow windows’ for each sub-activity e.g. supplying seed and other farm inputs, farming activity\(^3\), selling farm produce and transporting/processing of that produce.

For farmers, cash is needed in the planting season for seeds, fertiliser, other inputs, farm services and labour, if buying in. Farming households have to marshal money for inputs that will not be turned into cash until the sale of farm produce 4-9 months later depending on the crop or longer if it is livestock. This may involve saving money or crop from the previous season that is sold at input time, liquidating an enterprise activity e.g. selling the balance of stock for a trading enterprise, borrowing from formal/informal sources, obtaining remittances from urban relatives or using other means. Because there is only one rainy season per year in Central Southern Africa, rural livelihoods/enterprises are also highly dependent on the rains, compared to East Africa where there are bi-modal rains and two chances/year to get a harvest.

\(^1\)Single rainfall season per year. 

\(^2\)As it is not possible or not affordable in many cases.

\(^3\)Such as preparing land, planting, weeding, ‘feeding’, treating for pests/disease, harvesting and post-harvest activities (e.g. dry, winnow, sort, grade).
Key point: rural households/enterprises have to organise their resources around an annual rain-related calendar, with considerable implications for cashflow and labour needs, and with a high level of livelihood risk. This creates opportunities and risks for financial service providers (FSPs).

5. Farming activities dictate the related finance needs which vary considerably

There is a tendency to regard all farming/agricultural activities as if they are the same. Talking about agricultural risk generally fails to distinguish that risk is a function of the type of agriculture and the nature of the livelihood/enterprise activity within that. There are major differences in agriculture between livestock and crops in terms of investment needs and returns. There are also major differences within livestock and within crops. For example, investing in cattle requires considerably more capital and longer gestation for returns than investing in poultry; the investment cycle in pigs and goats sits in-between these extremes. Crops like tobacco and cotton require considerably more monetary investment in seed, fertiliser, labour and pest/disease treatment than cassava or sunflower for example.

Also, the time for the livestock/crop to come to maturity for sale determines the length of the investment, which can put certain crops/livestock beyond the reach of poorer households which may not be able to afford to invest in agriculture that span multiple years in order to get a return. Many crops (annuals) reach maturity in a single season, but have to be replanted the next season, such as maize, cotton, tobacco, etc. This is in contrast to tree crops (perennials) that take several years to mature and yield a return, such as coffee, cashew and macadamia, but then yield an ‘annuity’ income once established, with reduced annual investment.

There may be more cost in ‘selling’ the product e.g. cotton and tobacco may need moving to a distant market or to be ‘baled’ (packaged) that requires access to cash for packaging and transporting, before the crop can be sold. This compares to cassava, maize and groundnut that can be sold in any form and in the locality it is grown.

The investment and cashflow required for particular crops/livestock in order to get a return, limits which farmers can grow some crops or keep some types of livestock.

More profitable farming activities with longer investment cycles are often out of reach of poorer households compounding their poverty unless they access resources to move up a level in their crop/livestock choice. The risks also differ by crop and livestock type; for example goats tend to be less disease prone than pigs and chickens. Indigenous/‘local’ breeds have lower disease risk/higher survival than the high performing exotic animals that are often used for dairy. Crops such as cotton, tobacco, paprika and chillies are more disease/pest prone, so require measures to protect them, which requires resources.

Key point: it is important to understand the particular agricultural activities, as these differ considerably and these affect capital needs, cashflow and ultimately, who can grow them. Financial needs reflect these different agricultural produce profiles.

6. There are a range of natural, human-related and market risks in agriculture

There are risks in agriculture from the natural environment e.g. drought, erratic rains\(^4\), heavy rains, flooding and wild animal (elephants/buffalo) damage, from humans e.g. domestic animal (goats/cattle) damage to crops, theft of crops/livestock, disputes over water and access to livestock feeding areas and markets e.g. government interference, volatile world and/or domestic prices.

The risk of catastrophic loss for some livestock/crops can be too high for a vulnerable household, which is partly why they continue with low input, low yielding, traditional food and cash crops.

\(^4\)It is not just drought, but it can be erratic onset, periodic rain breaks at critical maturing points, persistent low rainfall, heavy rainfall, persistent high rainfall, etc.
Key point: Understanding risk profile of each farming activity (and for the different categories of players within that – poor farmers, commercial farmers) is important to designing and delivering financial products that can address these investment and risk issues.

7. Farmers generally grow multiple crops rather than specialise

Farmers are often referred to as ‘cotton farmers’, ‘soybean farmers’, etc. Although they grow the named crop, this over-simplifies their farming livelihood, as they are likely to be growing several crops and may rear livestock. Farming is inherently risky, so smaller farmers diversify risk by having several crop/livestock options.

There are other reasons for the crop choice in a farming mix. Some are for synergistic reasons, such as growing tobacco, maize and a legume in a three-year rotation is good agricultural practice. Some relate to the priority of household food self-sufficiency, which is why maize and cassava are so prevalent even if the household is also growing crops for income. Some are grown using intercropping as there are some farming advantages in doing so, e.g. pigeon pea and beans intercropped with maize. Some relate to the amount of household labour available and timing of the labour need, as some crops are late planted/harvested, as well as the gender division in the household, as men and women may have different plots that they farm. As noted, crop choice is also a function of cashflow, total resources (money/labour) and risk appetite.

Specialism in a crop is something that commercial farmers may do, as they may gain more from investing heavily in one crop (e.g. equipment) and they have more scope to cope with the downside risks. However, even commercial farmers in Africa (unless an international firm), tend to have some diversity as they are acutely aware of the risks of specialisation.

Therefore, it would be more common than not to see ‘a portfolio’ of at least two, often three crop choices plus some small livestock in poorer households.

Key point: thinking about and understanding the diversity is important in financial product design.

8. Households generally have a diverse ‘portfolio’ of livelihood activities beyond farming

In addition to diversity in crop and livestock choices, households often have other livelihood activities to supplement farm income and to reduce risk. Farming is not a full-time all year around activity, so those with resources or that are more enterprising may have other seasonal enterprise activities, such as trading or small scale processing (roasting nuts/maize, beer brewing, etc.). These enterprise activities often fit with the rural income cycle, operating from post-harvest to the time of planting, when they are liquidated because there is a lot less income around (as it is now going into farm inputs) and because the household wants cash to buy its own farm inputs.

Farming households may have ongoing or seasonal work opportunities, such that one member is formally/informally employed full-time, part-time or seasonally. This may or may not require them to migrate; the latter means there are needs for sending/receiving money/remittances. Formal employment is highly prized, so those with get family/hired help for the farm rather than giving up employment. Male formal employment is more common than for women, so this contributes to more female-headed households in rural areas as men may migrate to the places of formal work.

Providing casual labour is also an important livelihood for poorer households. This can be for
farming, typically doing piece work (field preparation, weeding) or for off-farm and non-farm activities according to what is available. This can be for private formal and informal individuals/enterprises or for government/donor, such as food/cash for work programmes. Payment can be in food (maize) or in cash. Casual labour is for when there are few alternatives, as it can be both demeaning and exploitative.

There are payments/transfers on which some rural people depend, which include urban-rural and international-rural remittances from family, pension payments to retirees, cash transfers by Govt/NGOs, etc. These are less common, but are part of the livelihood mix.

**Key point:** there is diversity of farm-related and non-farm related income for many rural households that should be seen in totality to understand opportunities to save, to service loans, to mitigate risks, to move money, etc.

9. Off-farm enterprises are not necessarily crop-specific

Just as farmers are not necessarily only ‘crop-specific’ farmers, the same is true for off-farm enterprises e.g. there are crop traders rather than ‘groundnut’ or ‘soybean’ traders, though some may specialise. Traders deal in several crops often related to what they regard as having the best potential in that place at that time, and as one crop runs short, it may be the time of relative abundance for another crop, so they move on.

Small scale processing can be more tied to a crop, as equipment may be process-specific, but even then they may have alternative equipment or flexibility so that they move on from one crop to another making use of their processing facilities for a longer period. The alternative for a processor is that s/he needs to buy crop and store it so as to prolong the processing period and improve the returns on the investment in equipment, staff and premises. This lack of flexibility in processing and the need for considerable funds for working capital, as well as the original investment, limits investment in processing to larger better resourced players.

**Key point:** there is need to understand the nature of the particular enterprise and recognise that it can move into and out of activities opportunistically.

10. Enterprise owners (as well as farming households) adopt a portfolio approach

As with farming households, enterprise owners often adopt a portfolio approach as soon as they move beyond the first levels of enterprise (e.g. vending). The author’s work on agri-businesses in Malawi found that owners operate multiple enterprises, often through the family, serving three main needs: Firstly, it enabled them to limit their risk as any one enterprise could face a catastrophic event e.g. if it is a transport business and the truck has been crashed or stolen or the shop/stock are destroyed by a fire/flood. Having more than one unrelated or loosely related businesses means the owner can survive by moving effort and resources to one of his/her alternative businesses. The original business may ultimately be revived, but it can be in abeyance until the timing is better or new resources are available to the owner.

Secondly, having multiple enterprises allows money and resources to be moved around. One trader in a district town in Malawi buys farm commodities, then shifts to selling cement (peak demand for repairs before the rains start) and farm inputs, then trades food in urban areas when food is relatively scarce, then shifts resources to his grocery and hardware businesses once farmers start to sell their crops and have cash.

A third reason is to test which business works best. Rather than investing time and energy into detailed business planning and viability studies beyond some enquiries/thinking, the owner takes an opportunity to start a business in an area that looks attractive. This enables them to diversify risk and resources, but also to work out which enterprises work best for them. It is growing by trial and error.
Key point: that beyond the micro-businesses, the financial products have to take account of the portfolio nature and needs of owner-managers rather than looking at the details of one particular enterprise that might be the focus of the financial service provider.

11. All households have ‘living’ needs that run alongside their ‘livelihood’ needs
As well as requiring funds for farming and other livelihood activities, rural households have all the normal day to day needs for ‘living’. These living needs are: frequent and predictable relating to food/clothing/shelter; infrequent, but predictable (and ‘lumpy’), such as school fees, ‘rights of passage’ (circumcision, engagement, wedding, child birth) festivals (Christmas, Eid, traditional ceremonies); and infrequent and unpredictable, such as medical and funeral costs. When these ongoing ‘living’ needs are overlain by the cashflow implications of their particular livelihoods, there are points of considerable financial stresses, depending on what events actually occur.

So, typically for a crop farming household there is a time of relative plenty from harvest (April-June) to the end of the main crop selling season (July-August), followed by a time of investment (October-January), followed by time of shortage/’hunger’ (January-March). For these households, consumption is high in certain periods (post-harvest) and cut back (including on food) in the time of shortage. Households have developed financial coping strategies for their regular/infrequent predictable expenditures, such as membership of informal savings and credit groups and ways to supplement income when seasonal opportunities arise. These strategies/mechanism are crucial as they enable them to go through the annual cycle and start again. However, if the household is hit with an unpredictable relatively large cost, such as illness or a funeral in own and extended family at a time when cashflow is at a low point (typically January to March), then the household may be forced into extreme coping strategies that are detrimental to its financial well-being. These might be sale of assets, sale of labour instead of farming own land, informal borrowing, early sale of produce ‘in the field’ at a heavy discount, engaging in harmful activity (women selling ‘sex’), etc.

FSPs usually focus on productive activities, ignoring non-productive/social/living activities and are surprised that funds get diverted. In societies were social capital is more important than repaying a formal loan to an outsider, then diversion is both predictable and sensible for the rural person. Yet FSPs may limit their analyses to the productive activities they are interested in than think about the total picture of the rural household and what drives decision-making.

Key point: FSPs should also consider the nature of rural living and livelihoods, as these are inextricably linked. Thinking about loans for productive use is ignoring the reality that there is no division between living and livelihood activities for most rural households.

12. There are important informal rural structures and solutions that are often overlooked
Formal entities/structures/mechanisms are easier to identify, but relatively rare and with limited reach in rural areas. However, there are informal structures such as church groups, NGO formed groups, as well as peer networks that exist and need to be considered. These have been added to by the rapid growth in savings and credit groups. Informal lenders can be reviled, yet they provide small amounts of credit at short notice to meet immediate needs, in ways that even informal savings and credit groups do not, and that formal providers cannot. High interest rates on small amounts of money have to be offset against the high transaction costs of accessing credit from other sources. Some informal lenders join savings and credit groups so as to either get a return on savings via group on-lending or to borrow in order to on-lend themselves. Some informal lenders trying to raise capital from family and friends as an investment with returns to the syndicated financiers. Informal lenders could be seen as an opportunity; or at the very least to learn from why they are so prevalent and how they operate in ways that are more efficient and effective than formal finance.
The author’s work with agri-business Small and Medium and Enterprise (ASMEs) in Malawi found that they do work with each other (as a peer group with mutual interests) collaborating, while competing. ASME owners borrow from ‘business friends’. Loans of up to $4,000 were available immediately with no collateral, no interest and repayable in one month, in return for reciprocal help in due course. SME owners were four times more likely to borrow from business friends than from banks.

**Key point:** some informal structures function better than others, but knowing what exists and how it operates could be of use to FSPs to see if they can replicate, improve or collaborate with.

### Categorising Rural Finance

Drawing from the previous section, three main categories of rural financial can be identified:

1. **Agricultural (‘farm’) and agri-business (‘off-farm’) finance** for crop and livestock market-chains;
2. **‘Non-farm enterprise’** (NFE) finance for a wide range of rural enterprise activities;
3. **‘Household’ finance** for medical, education, consumption, household asset and housing needs.

Farm, off-farm and non-farm are ‘livelihood’ related finance, while household finance relates to ‘living’. All households, whether rural, peri-urban or urban have livelihood and living finance needs, which are separate to some extent, but also inter-related such that together they can be viewed together as ‘Rural Household Finance’ needs. Crop and livestock value chains have been the main focus in rural finance covering farm and off-farm activity. The value-chain approach for agricultural commodities provides a useful framework for analysing farm and off-farm related activity suppliers, farmers, traders, transporters, extension providers, processors etc. A value-chain approach can help address the inter-related needs and problems along the chain as farm produce is transformed.

Although using value-chains for planning agricultural finance interventions is common, they are not universally adopted. Emphasis has shifted from value-chain frameworks that focus on improving the functioning of linked enterprises in a linear ‘chain’, to ‘market system’ approaches that also emphasise ‘supporting functions’ (transport, finance, technologies, information, etc.) and the ‘rules’ that underpin and determine how a market functions. Market system approaches focus on how systemic change can be stimulated to enable scale and sustainability. Using value-chain and market system approaches can help to view the bigger picture, while addressing the specific financial access issues at various points in the chain and/or system that are problematic.

There are firms and individuals operating businesses supplying similar consumer and business needs as in urban areas. For individuals and households these are income generating or livelihood activities. For firms, these are enterprise or business activities. Collectively, these individual, household and business activities can be termed **non-farm enterprise** (NFE) activities.

While rural NFE opportunities may be more restricted, compared to urban areas, they do exist, tend to be under-emphasized and offer long-term benefits for diversification of household livelihoods and overall economic development. NFEs may still be linked to agricultural activities, as NFEs are more active in the post-harvest period when there is both family labour available to run the activity and money available in the rural community to spend.

The third category of rural finance is **‘household’ finance**. Finance service providers have focused on agricultural and enterprise credit on the basis that these are productive and can generate income to repay loans.

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5 The term enterprise is used to span the lowest level income generating activity through to the operations of large businesses.
This is too narrow an approach, as households do not draw lines between farming, enterprise and household finances. In relation to household finance, predicted expenses require the ability to smooth income and expenditure (savings and loan combinations), while unpredicted expenses create opportunities for savings, loans and insurances.

From a supply side perspective, relevant **categories of financial products** are:

1. **Credit** - agricultural, enterprise and personal loans;
2. **Savings** for households and enterprises for consumption/cashflow smoothing and for investment ‘projects’;
3. **Insurance** - for agriculture, enterprise and household risks; and
4. **Transactions** - payments by/to enterprises and transmission of funds by individuals/households.

Many of these ‘products’ can be delivered by a wider range of actors in addition to FSPs, including buyers, processors and inputs providers, government/NGOs, as well as informal players. However, there is a need to innovate, as the problem of outreach is not just a function of the cost of formal financial sector presence in rural population centres, but the nature of the formal financial offers, which are usually designed from a supply side perspective and target the urban better-off households and larger enterprises.

As well as innovation in the design of finance products that address the situation and needs of rural households and farming/non-farm enterprise activities, there is also scope to innovate in the means of delivery, where cellular/digital technologies have opened up opportunities for payments, savings, insurance and financial information. Innovation could also arise through new partnerships between financial players e.g. banks and MFIs, and MFIs and informal savings groups, as well as between FSPs and non-financial rural actors (value-chain actors, mobile network operators, etc.). Innovation could also be through bundling financial products, combining micro-insurances with credit packages.

**Opportunities for Rural Finance**

The take-up of savings and credit groups in rural areas has been a considerable rural success story—continued expansion and coverage is needed. The same is likely to be the case for mobile-money/transactions, if challenges around agents and liquidity can be fully resolved. In addition, there are some relatively neglected/unsolved areas of rural finance need that stakeholders could consider:

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<td>2. Credit for off-farm and non-farm micro, small and medium enterprises</td>
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*Re-thinking Rural and Agricultural Finance*
1. Agricultural credit for small-scale farmers remains poorly addressed. There is potential through improved/innovative outgrowing schemes, and probably linked with micro-insurances (see below) to firms and farmers to offset the agricultural, natural, human and market risks. It would be beneficial if there were better understanding and assessment of the relative/differential risks in different types of agriculture, and better means to assess risk.

2. Credit for off-farm and non-farm micro, small and medium enterprises is similarly neglected, partly due to the heavy focus on agricultural credit, but also due to the range of opportunities being overlooked and misunderstood; the nature of portfolio ownership needs to be considered, as well as problems around collateral based lending. Piloting and promoting nascent approaches such as lease finance, invoice discounting and cashflow based appraisals could improve FSP appreciation of the opportunities and how to lend more safely.

3. Non-collateral based lending is not common, yet collateral is a key constraint on expanding credit for farm, off-farm and non-farm enterprises. There are opportunities for asset based finance, where the purchased asset becomes the collateral and for cashflow and debt based lending, such as contract/invoice-based loans and factoring/invoice discounting.

4. Managing agricultural risks is being partly addressed through selected crop/weather insurance products–these can be usefully integrating with agricultural credit, but there are other areas of natural, human and market risk that are not addressed leaving room for more innovation.

5. Managing enterprise risks is also an underserved area. Enterprise owners find ways to manage risk, but there is scope to bundle relevant insurances with loans for agri-businesses and non-farm enterprises. Credit life insurance is not relatively commons, but illness of the owner, theft and other catastrophic events can make a big difference to an enterprise’s prospects for survival and growth.

6. Managing household risks has been partly addressed with hospitalisation and funeral benefit insurance, but this is incomplete and there are other important risks that are not covered, such as incapacitation, illness short of hospitalization, etc. that impinge on households’ ability to maintain their financial well-being.

7. There is need for enabling higher-levels of savings, beyond what savings groups can currently offer. Savings for predictable expenses (school fees) and for investment projects (housing improvement, farm inputs, business investment) may not always fit savings group scale and models requiring some higher level savings options that provide security combined with sufficient access. The potential to link savings and credit groups to formal financial institutions is one potential route, as well as finding means to expand other savings option, such as MFIs as deposit takers, SACCOs, aggregating saving groups into higher level institutions, etc.

8. Financial problems also need improved financial knowledge, as well as and even in place of FSP products. The supply side sees financial problems as requiring financial products, but the first approach for an enterprise and household ought to be to get its finances in as good order as possible before resorting to FSP financial products, which are provided at a cost. Often the response of an enterprise to shortage of cash is to immediately seek credit, rather than to consider what assets are tied up (fixed and working capital), raising prices and profitability (and perhaps slowing down growth), offering discounts to customers for early settlement, and so on. MSMEs in particular can often better utilize their available resources, and learn how to use formal financial services appropriately. FSPs may be unwilling to promote this as it is seen to deprive them of financial product opportunities; however, there is merit in good financial education so that individuals and enterprises are in better financial health and able to better utilise financial products.
9. Development of delivery channels and new partnerships are potentially fruitful mechanism through which change can be brought about. The cost of establishing outlets and placing staff in rural areas, even in Provincial and District towns is high, which points towards finding partnerships that can share resources and reach further, as well as mechanisms that bring down the cost of transactions for the provider and the service user.