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DIAGNOSTIC CHECKLIST FOR EVALUATION OF RURAL AND AGRICULTURAL FINANCE FOR FOOD SECURITY

This checklist is designed to help U.S. government program officers determine the potential market constraints to increasing rural and agricultural finance in the context of food security. In conjunction with the model scope of work in FS Series #8, "Rural and Agricultural Finance for Food Security," this checklist can be used to determine if program resources should be dedicated to rural and agricultural finance and which interventions would be most appropriate in a given country's food security context.

KEY QUESTIONS	YES	NO	COMMENTS/RESPONSES
Food Security			
1. Have the food insecure been identified in terms of where they are concentrated geographically and the nature of their food insecurity?			Disaggregated national poverty and production statistics and vulnerability mapping can be used to assess the prevalence and nature of food security levels.
2. What do the food insecure depend on for their livelihoods? Do opportunities exist for improving these livelihoods and/or assisting the food insecure transition into more profitable livelihoods? Do RAF activities have a role to play in this process? If so, which activities are most promising?			Some of this information should be available from existing food security assessments and strategies, information on the location of the food insecure, and the nature of their livelihoods. However, RAF assessments will be needed to develop more details on whether RAF activities have a role to play in this process, which approaches would be more effective under what circumstances, and the constraints to their use.
3. Will the more food insecure be able to participate in the RAF programs that are under consideration?			Some poorer clients may not have sufficient knowledge, skills, access to collateral to be able to participate in some RAF programs, short-comings which might be dealt with by making adaptations in the RAF program, providing more skills training, for example, and/or utilizing one time asset transfers to facilitate participation.
4. Do opportunities exist for using RAF to have a more direct impact on improving the diets of the food insecure?			Opportunities may exist for expanding training and technical assistance activities to include guidance on how to use income increases more effectively to improve family diets (e.g., adding modules on family diets and household budgeting). Opportunities may also exist for using RAF activities to promote the production of food products that would add value to local diets but are not available locally or are too expensive.
5. Is child malnutrition a problem? If so, do other opportunities exist to positively affect food utilization?			Community-based health and nutrition programs may exist that can be linked to RAF programs. Opportunities may also exist for adding technical assistance and training, such as on improving health, hygiene, and infant and young child-feeding practices.
6. Does price instability contribute to food insecurity?			Consider addressing monetary policy and/or using insurance and other pricing risk mitigation tools.

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RAF Enabling Environment			
1. Has government avoided subsidizing or directly lending to farmers or rural poor?			If not, it will be more difficult to convince private sector to invest in RAF. Additional incentives to lower risk and protect returns might be needed.
2. Does the current regulatory framework encourage rural outreach?			Lower capital requirements to start a financial institution and laws that encourage competition tend to result in better rural outreach at lower costs.
3. Do land titling and contract laws (and enforcement) facilitate the use of land as collateral?			If not, guarantees may be needed in order to create RAF supply, especially for larger agricultural loans.
4. Does the country have a collateral registry?			If not, this limits the type of products that can be offered and requires other risk mitigation.
5. Does the country have a credit bureau or credit-reporting agency?			The broader the coverage and data available, the less risk to financiers.
6. Are there adequate consumer protection laws and enforcement mechanisms in place?			Can be important for reducing risk associated with programs involving financial intermediation.
7. Is the regulatory environment conducive to electronic banking?			Use of technology to facilitate electronic and mobile banking is also limited by telecommunications infrastructure and outreach (e.g., the number of cell phone users).
Rural and Agricultural Finance Providers			
1. Do many formal financial institutions (including insurance companies) serve rural clients in general and farmers, in particular?			If few formal institutions are involved, may need to identify more informal approaches, such as working through microfinance nongovernment organizations.
2. Are there non-formal financiers, such as microfinance nongovernmental organizations or lead firms within a value chain that offer rural and/or agricultural finance?			These generally have lower outreach, but can be used to make the case to other financial institutions that RAF can be profitable and risks can be managed.
3. Do the current RAF products and terms address client needs?			Can identify gaps that the program might want to address, such as credit for high-quality seeds, fertilizer, irrigation, and to build or purchase warehouses.
4. Are there any innovative approaches being used to expand RAF?			Could include innovative lending methodologies or distribution technologies that could be scaled up.
5. Do financial institutions understand agricultural markets and how to assess related business opportunities?			Most experienced agricultural financiers train agricultural specialists to design appropriate products and make good loans.
6. Are there adequate points of service from which to offer RAF?			It is generally easier to build RAF off of existing branch infrastructure than to try to start it in areas without it.
Rural and Agricultural Markets			
1. Do other economic opportunities (e.g., higher-valued products with increasing demand in national, regional, and international markets) exist that could be			Avoid focusing on only current domestic production and staple crops — there are often better opportunities to improve incomes that would make a bigger impact on food security.

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taken advantage of to expand rural and agricultural markets?			
2. Are there large firms that represent potential buyers to those growth markets?			Such firms can often supply information on global market demands, quality and price.
3. Are there adequate roads, irrigation and other infrastructure to support rural and agricultural markets?			These factors affect rural profit potential and financial institutions' ability to serve the area.
Rural and Agricultural Finance Users			
1. Has an assessment or market research been conducted to identify the greatest constraints to the rural poor's access to finance?			Rural poor are often less concerned about cost in terms of interest rate than transaction costs related to transportation and losing work time.
2. Are RAF products diversified and designed to address the many needs of their users?			Compare RAF user needs with current supply to identify gaps in product and service delivery.
3. Do the rural poor, especially farmers, have collateral (land, equipment or other assets) that could guarantee a loan?			If not, products and loan sizes are somewhat limited. Guarantees or other risk mitigation needed.
4. Do rural poor know how to work with a financial institution?			Technical assistance might be needed to strengthen financial literacy.