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FS SERIES #8: RURAL AND AGRICULTURAL FINANCE FOR FOOD SECURITY

MODEL SCOPE OF WORK

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Rural and Agricultural Finance within a Comprehensive Food Security Strategy

The purpose of this scope of work is to assist U.S. government program designers to structure effective programming in rural and agricultural finance in support of a comprehensive food security strategic framework for a specific country. This scope of work assumes that background research has been conducted on the nature of food insecurity in the country, including the population's food availability, access, and usage (including nutrition and health impacts).

I. Objective

[This section should define the broad objectives that the project is to achieve (i.e., “where we want to be”). As possible, these should be quantifiable, but include qualitative results.]

II. Background and Rationale

[This section includes the “where we are” of the business planning process. Include paragraphs citing USAID mission strategy, programming, and other concerns that place the content of the scope of work in broader context and highlight any specific expectations of the project. Note the countries' current levels of poverty and food insecurity and any related issues keeping them from being addressed. Include background information on what the government and other donors are already doing to address these issues.]

Common issues include:

- High rates of illiteracy
- Outdated agricultural practices and services
- High rates of unemployed and unskilled workers
- Limited savings or physical capital for collateral
- Banks consider rural and agricultural finance too high risk
- Weak and/or corrupt private and public institutions
- Non-supportive policy and regulatory environment
- Undeveloped insurance market
- Inappropriate donor and/or government interventions, resulting in damaged markets

[Note: These issues are likely to apply to many countries. This section should identify specific factors that the project will impact, and if possible, establish the baseline against which progress can be measured.]

III. Tasks and Activities

[This section should cover the “how we get from where we are to where we want to be.”]

Consider including the following activities under this scope of work:

1. Clarify the food security objectives for the RAF activities (e.g., the target population(s) and whether the primary focus will be on improving food access or availability).
2. Review documents related to the food insecurity in the country (e.g., assessments and strategies related to food security, poverty, livelihoods, and vulnerability).
3. Research the current state of RAF in the country, including assessments of market demand vs. supply; highlight the opportunities that offer the greatest potential to reduce poverty and food insecurity.
 - a. Analyze constraints to agricultural credit; design, test, and disseminate cost-effective mechanisms to ensure timely credit availability for improved technology adoption and increased productivity.
 - b. Analyze the policy and regulatory constraints to the development of a robust agribusiness sector as they relate to access to financial services.
4. Conduct baseline surveys and develop databases of information highlighting opportunities in rural and agricultural business.
5. Identify current and potential providers of RAF, the products and services they provide, and the constraints to expanding their operations.
6. Consider using USAID's DCA or other guarantee mechanisms to entice new RAF entrants, and monitor and demonstrate effective mechanisms to reduce credit risks.
7. Include guiding principles for what type of crops, businesses, and activities to support (e.g., emphasis on market-driven approaches and coordination with other programs).
8. Promote opportunities that support:
 - a. Farmers' abilities to grow more food (based on market demand), diversify crops, reduce post-harvest losses, increase sales, and increase incomes.
 - b. The expansion of competitive rural and agricultural value chains, by addressing financial, technical, and policy constraints.
 - c. The development of rural, non-farm enterprises, particularly those linked to competitive rural and agricultural value chains, as well as those providing goods and services in rural communities.
 - d. The development of RAF suppliers, by forging collaborative agreements to provide them technical assistance and institution-building support, including product development and delivery mechanisms.
 - e. The use of new technologies to reduce transaction costs of serving RAF, such as mobile or cell phone banking.
 - f. The use of local training institutions and technical assistance providers, ensuring that all capacity-building activities are designed to develop long-term local potential.
 - g. Local advocacy and removal of policy barriers that hinder RAF and the use of new technologies.
 - h. The regular monitoring of approaches and results and the sharing of information among program beneficiaries and other RAF programs.

9. Organize stakeholder meetings to address information asymmetries, promote market opportunities, overcome misconceptions, and brainstorm ways to overcome hurdles to rural and agricultural finance.
10. To the extent possible, incorporate the following cross-cutting themes: gender, youth, health, water and sanitation, and effective management of natural resources.

Depending on the country and program context, below are additional illustrative activities to consider:

1. Test the feasibility of a voucher program for commercially accessing agricultural inputs such as seeds, pesticides, and fertilizers.
2. Support and strengthen reliable rural agricultural input outlets.
3. Research the current state of rural infrastructure project finance and municipal finance in the country, including assessments of market demand vs. supply of medium and long term infrastructure funding; highlight the opportunities that offer the greatest potential to reduce poverty and food insecurity by addressing rural infrastructure development needs.
4. Support the development of sub-sovereign bonds as important instruments to consider when exploring models of sustainable rural infrastructure project finance.
5. Identify key actors from the public and private sector involved in sub-sovereign finance (if any) and their various roles in supporting sub-sovereign bond issues.
6. Improve value chain infrastructure support services such as warehousing, processing, and transport.
7. Support the development of municipal infrastructure finance and the issuance of sub-sovereign bonds, including forging collaborative agreements with local governments to provide them technical assistance and institution-building support.
8. Organize stakeholder meetings; including participating municipalities to address the level of understanding of sub-sovereign finance, overcome misconceptions, and brainstorm ways to overcome hurdles to rural and agricultural infrastructure financing mechanisms and sources.
9. Work with private financial institutions and non-bank financial institutions (or suppliers/producers) if appropriate to improve the access of farmers to small scale infrastructure development finance mechanisms. Address small-scale physical infrastructure constraints and challenges.

IV. Conclusions & Recommended Interventions

Through regular project monitoring, USAID should be able to assess its overall impact on food security, especially through proxies, such as the number of poor with increased access to RAF. In addition, it should ensure that it regularly collects and assesses data related to the specific approaches and partners involved in the program. To facilitate USAID's dissemination of high-impact results, the program should regularly highlight the following:

- Results by specific activities, including lessons learned in the implementation process, what made it more or less difficult to implement, and what could have been handled differently.
- Results by specific implementers, including what skill sets were particularly important, needed to be developed.
- Results by type of financial institution or product-type, including terms and conditions, repayment rates, and delivery methods.
- Results by client type (e.g., farmers vs. other rural firms, women vs. men, clients needing additional assistance vs. standard clients).
- Lessons from applying or attempting various approaches, techniques, or tools, such as the use of a new technology or methodology.

To the extent possible, related costs should be assessed to identify which activities and approaches were most cost-effective in achieving significant impact, as well as which types of client needs are the most difficult to serve and why.

V. Next Steps

Once USAID/(country) has determined which activities it will support, it should develop a planning document that includes the specific activities to be implemented, linked to the timeline and level of effort, budget, and other resources that will be required.