



DEPARTMENT: AGRICULTURE

BATAT Series: Finance 7

Guidelines towards an agricultural financing policy

Department of Agriculture

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1. INTRODUCTION

Objective

1. The objective of the policy framework on agricultural financing is to create an enabling policy environment for the development of a sustainable and viable system of agricultural financial services.

Structure of the document

2. The document is in seven sections. Section one is the introduction and outlines the purpose of the document. Section two reviews the use of rural financial services by rural people. It also sheds some light on how incorrect state intervention and market failures shaped the provision of financial services in rural areas. Section three reviews national policy initiatives together with changed conditions of the new Constitution. Section four outlines all the interventions of the Department of Agriculture as reflected in all its policy documents. Section five proposes strategies for legislative and institutional reform. Section six highlights principles on which instruments of enhancing strategies for agricultural financing should be designed. Section seven summarises the document by detailing the Legislative Reform Action Programme of agricultural financing.

1. BACKGROUND

The rural economy

1. Unlike all other countries in Sub-Saharan Africa, South Africa has a highly industrialised and sophisticated economy. Over 66% of the population live in the urban and peri-urban area, and the average per capita income of nearly US\$3 000 far exceeds that of many countries in the continent. However, the extent of poverty is masked by the highly skewed income distribution which has strong racial, rural and regional dimensions. Nearly 95% of South Africa's poor are African, and some 75% of the poor live in rural areas. (This section draws on *Key indicators of Poverty in South Africa*—an analysis prepared for the office of the RDP by the World Bank, based on the South Africa Living Standards and Development Survey, co-ordinated by SALDRU.)

Problem statement

2. Although South Africa is sufficiently diverse to be able to benefit from the interventions that have been used for poverty alleviation in other neighbouring countries, agricultural development provides very limited opportunities for alleviating poverty. Even non-agricultural income opportunities face problems of poor services from government and commercial institutions because historically they have neither been structured nor oriented for this purpose.
3. To highlight this problem, it is necessary to categorise the rural sector according to the activities of the clients of rural financial institutions and the type of financial services available to them:

i. Bankable large commercial farming sector non-farm enterprises

In this category falls large scale commercial farmers and large scale employers engaged in highly productive agribusiness activities. This category has access to conventional collateral such as land and real estate as well as moveable and financial assets. Therefore they obtain credit from commercial banks, the Land Bank and co-operatives.

ii Commercial small farms and businesses

In this category falls emergent farmers, women involved in medium scale business enterprises and businessmen who have been able to save enough to establish a small business. Spaza shops, brick making, construction, second-hand bakkie for transport and trading activities are popular entry points. This category has recently had access to the Development Financial Institutions (DFIs) and the Agricultural Credit Board. Even more recently, the Land Bank has attempted to include them.

iii Bankable poor

The bankable poor are subsistence producers with small commercial sales as well as farm workers. This category is able to save and often hold their savings in the form of cattle. They are not served by commercial banks DFIs because banking business with them has very high transaction costs. This group is mainly served by informal lenders at very high interest rates. They are also served by the NGO sector who though limited in terms of their outreach, engage in credit delivery through their group loan facility. Another source of credit for this group is family and friends, stokvels and local shops.

iv Non-bankable poor

This group constitutes the rural poor such as very poor farmers on marginal lands, the landless and the unemployed rural poor. This group has a low asset base or no assets of any kind that could be converted into cash. Hence this group has no safety-nets of its own being unable to liquidate assets to cover unexpected expenses or to provide collateral to obtain credit.

1. From the section above it is clear that South Africa has a strong private commercial banking sector, National Development Financing Institutions (NDFIs), non-governmental organizations (NGOs), Provincial Agricultural Development Financial Institutions (PADFIs) and informal local financing agents. It also has state departments active in the same financial markets.
2. However, the provision of financial services to the rural population has been inadequate because of distorted financial policies. These policies have resulted in a situation of extreme dualism along strong racial lines in the financial markets. On the one hand, white commercial farmers and businesses have been served by formal institutions such as commercial banks, the Land Bank and cooperatives. On the other, black, small and emerging farmers and entrepreneurs had very limited access to these financial services because commercial banks and DFIs viewed small farmers as high risk and costly. Other cited factors also include high risk of default associated with small operations, the absence of collateral, the lack of banking experience, lack of information and the cost of getting information relating to this category of farmers.
3. This situation has been further exacerbated by the negative perceptions by farmers of some PADFIs due to their previous poor service. The entrance of the ACB at the end of 1994 only reinforced such negative views when they charged differential and lower interest rates than commercial banks and DFIs.
4. These distorted financial policies have also contributed to situation of high indebtedness among farmers due to subsidised interest rates and other financial incentives and transfers.
5. Legislative measures such as the Agricultural Credit Act, 1966 (Act 28 of 1966), the Land Bank Act, 1944 (Act 13 of 1944) and the Co-operatives Act, 1981 (Act 91 of 1981) have also contributed to distortions and high farmer indebtedness by inducing commercial banks, DFIs and farmers to make wrong decisions through, among others, subsidised credit. These measures and policies also confined some of the above institutions to provide financial services to farmers within racially determined geographical areas.

1. NATIONAL POLICY INITIATIVES

1. In an attempt to address the problems highlighted above, several policy initiatives have been launched to re-examine the role of the state in the rural and agricultural financial markets within the new dispensation. These included the Commission of

Inquiry into the Provision of Rural Financial Services (Strauss Commission), the Framework for the Transformation of the NDFIs, and the Agricultural Financial Assistance Policy (AFAP). The latter will be discussed more in detail in Section four.

2. Due to the pivotal role of the state in financial markets, the fundamental issue underlying the policy initiatives stated above centres around the nature of state intervention in correcting market failures and in creating an effective and efficient policy environment.

Strauss Commission

3. The Strauss Commission provides a framework for the provision of financial services for rural households, farmers and entrepreneurs. It proposes that state intervention should support the market by facilitating and co-ordinating the provision of financial services, rather than direct credit delivery.
4. For that reason it recommends that the credit provision functions currently performed by the national and provincial departments of agriculture should be discontinued and the loan books, suitably vetted and or guaranteed, transferred to the Land Bank.
5. The Strauss report places a lot of emphasis on the five wholesalers in the financing of the rural sector and the urban based emerging enterprises. However, it does not clearly define the role of different financial institutions. It also fails to examine the links between first, second and third tier institutions and the significance of their relationships.

Framework on the transformation of DFIs

6. The contribution made by this framework is the proposal that a firewall between funding flows should exist as condition for ensuring that risk falls where it belongs and that the country's financial markets operate efficiently and effectively. This entails ensuring that risk capital falls where it belongs by clearly defining the role of the state, markets and civil society.
7. To facilitate the attainment of that objective, a proposal is made that only if a project cannot be financed by the markets should financing by the budget be considered. In such cases attempts should be made to use fiscal grants to structure co-financing arrangements with DFIs and the private sector.
8. Even though this framework provides the basis for defining the roles of different financial institutions, it also does not examine the link between the five sectoral based NDFI with PDFI and the institutional relationship between the three tier financial institutions. This relationship is elaborated in section 5.

2. THE AGRICULTURAL FINANCIAL ASSISTANCE POLICY

1. The Department of Agriculture has inherited the legacy of a range of subsidy schemes and an absence of retail financial institutions that can effectively provide efficient financial service to the new entrants in the agricultural sector. Its primary concern has, since April 27 1994, been to close the gap in the provision of financial services to poor and emerging farmers who have been previously excluded by financial institutions. The position of the Department of Agriculture in facilitating this, is reflected in the White Paper on Agriculture and the Broadening Access to Agriculture Thrust (BATAT).

White Paper on Agriculture

2. The White Paper on Agriculture outlines the following four principles and strategies for agricultural financing:
 - a. Farmers must be assured of equitable access to efficient financial services. This should be facilitated by identifying the needs of different farmer groups and the characteristics of rural financial markets. It should also be accomplished by reassessing the role of government in relation to direct lending.
 - b. Financial management by farmers should be improved through training and advice. The government should facilitate and in some cases finance the cost of training so as to reduce the burden on financial institutions.
 - c. All interest rates on agricultural financing should be market related. Transaction cost financing should be used as an alternative to subsidised interest rates, where necessary.
 - d. Ability to repay will be the basis for extending credit to farmers.

Broadening Access to Agriculture Thrust (BATAT)

1. The principles of the White Paper on Agriculture were taken further in the Broadening of Access to Agriculture Thrust (BATAT) as an implementation strategy of the Reconstruction and Development Programme (RDP) within the Department of Agriculture. The design process of BATAT had five groups which focused on the following subjects: agricultural finance, marketing, human resource development, delivery systems and technology development.
2. The BATAT Financial Assistance Design Team proposed a new Agricultural Financial Assistance Policy (AFAP) as a basis for strategies to improve access to financial services (see BATAT Series: Finance 1). The aims of AFAP are to facilitate the provision of financial services for the new entrants to agriculture.
3. Although AFAP is targeted at broadening efficient agricultural financial services to the lower end of the market which has been previously disadvantaged in terms of access to services, the department has the responsibility of applying the principles contained in the White Paper on agriculture to promote national growth and employment.
4. The dual and strategic role that agriculture has within the broader RDP goals therefore, calls for re-thinking on the existing strategies and government support programmes which can support economic growth and support food security. Underlying this strategy is the recognition that the engine of growth will be the new entrants who have managerial skills, access to information and sufficient resources to start a farming enterprise. In designing schemes aimed at broadening access to agriculture, therefore the balance between development and growth always has to be maintained. This can be facilitated by meeting the needs of a broad spectrum of farmers with different kinds of needs of instruments.
5. AFAP proposes the launch of six primary programmes to attain the objectives of the White Paper on Agriculture. These are:
 - a. Financial Intermediary Support Programme (FISP);
 - b. Wholesale Financial Intermediary (WFI);
 - c. Farmer Support Programme (FSP);
 - d. Farmer Graduation Programme (FGP);

- e. IFA Structure on Financial Assistance (IFA-FA);
- f. AFAP Monitoring and Evaluation System (AFAP-M&E).

Financial Intermediary Support Programme (FISP).

1. The aim of this programme is to shift departmental spending in line with the government developmental spending whilst promoting greater reliance on the market system by raising the role of public and private financial intermediaries in contrast to declining direct state lending.
2. The FISP seeks to facilitate this by: encouraging retail institutions to finance a new segment of the small farmers; phase out direct state credit delivery to farmers; and support the participation of small farmers in rural financial markets.
3. The ability of the FISP to broaden access will depend on the availability of schemes which will address the high costs and risk associated with lending to emerging farmers, lack of collateral and lack of credit worthiness.
4. In essence the shift from direct, reflects attempts by the Department of Agriculture to search for a balance between the state, markets and farmers so as to ensure that risk capital falls where it belongs. It is in this regard that the Department of Agriculture held discussions with financial intermediaries and farmers in order to design the agent based production loan scheme on risk sharing basis:
 - a. The Department of Agriculture as a state will bear the risk associated with creating incentives for intermediaries to serve farmers who had been previously excluded and removing the constraints that increase the risks and uncertainties in farming ;
 - b. Financial intermediaries will bear the normal risks of financial institutions associated with debt recovery; and
 - c. Farmers should bear the risks associated with the cost of operating their enterprises. However, farmers should not be made to bear unnecessary risks which emanate from constraints that a farmer has no control over.
1. Initially it was intended that this scheme would be implemented by using the guarantee scheme as an instrument for risk-sharing amongst the participating agents and the government. Given the difference in the capacity of farmers and the agents that serve them, the risk to be taken by different agents was calculated on a sliding scale. However the following bottlenecks in an attempt to broaden access to finance occurred:
 - a. The use of a guarantee scheme was postponed due to legal and administrative constrains which would have delayed the provision of production loans to farmers. As a result short-term measures were adopted through which funds are provided by the Department of Agriculture for production loans to financial intermediaries at 14% and also onlended to farmers at 14%. The operational costs of these intermediaries including transaction costs and provisioning have been borne by the Department of Agriculture.
 - b. Some agents who had earlier shown interest in participating in the production loan scheme later withdrew presumably because they found the scheme without a guarantee scheme too risky.

- c. On the one hand, farmers are resisting to be served by DFIs due to the legitimacy crisis of these institutions, and on the other, some DFIs and co-operatives are reluctant to serve these farmers due to perceived and actual risk associated with these farmers.
- d. The constraints of the Department of Agriculture in broadening access are in part an indication of its inability to reach farmers at the lower end of the market because of some of the financial instruments proposed in its policy documents have not yet been implemented.

Wholesale Financial Intermediary (WFI)

1. To pursue the objectives for broadening access to financial services the state needs to build the capacity of second and third tier financial existing institutions linked to a wholesale financial institution. (In this document first-tier institutions are local based retail institutions which are nearer to the clients, while the second tier and third-tier institutions are Provincial Development Institutions and national wholesalers, respectively.) There are a range of financial institutions which have a potential of fulfilling this function. The choice of such an institutions can be negotiated with these institutions.

Farmer Support Programme (FSP)

2. This programme is intended to complement the credit function under the FISP in order to empower farmers especially emerging small farmers to optimise the use of services and products rendered by financial intermediaries.
3. However, there is no precise profile of information about small farmers to enable them to access credit, because the formal financial sector did not deal with them in the past. Institutions in the former TBVC states and Self Governing Territories also did not keep reliable information about small farmers. The first task of the FSP is thus to sponsor a study to produce a profile in order to enable the state and financial intermediaries to identify and quantify the risks and costs that are involved in supporting small farmers.
4. The FSP also seeks to remove the constraints that increase the risks and uncertainties in farming and thereby create disincentives to small farmers to farm effectively and efficiently and financial institutions to provide credit.
5. These constraints consists of two types. The external or systems constraints, and the internal or allocative constraints type. The former includes natural risks of agricultural activity; limited input supply and marketing services; poor institutional and infrastructural support; inappropriate policies and legislation; restrictive administrative and social structures; and problems associated with land tenure and the acquisition of agricultural land. While the latter includes constraints which directly prevent the farmer from making the best decisions. Constraints of this type are those which the farmer has control over. These include. lack of liquidity, labour, skill, knowledge and education.
6. The target areas where the FSP is to be implemented need to be selected according to four criteria in order to ensure the optimum use of scarce resources:
 - a. the agricultural potential of the natural resource base;
 - b. the demand for support services by farmers and communities;
 - c. existing technical expertise; and

- d. infrastructural support

Farmer Graduation Programme (FGP)

1. The FGP is intended to foster the graduation of farmers through various support mechanisms so as to make them independent and self-reliant farmers. The FGP will be added to the FSP. This scheme will ensure that small farmers who enter the FSP will definitely leave the programme after a predetermined period, instead of becoming permanent dependants of state support. On their exit, farmers should have gathered sufficient expertise, experience and a financial track record to be able to access financial institutions in their own right for credit. All farmers in the FSP will thus become automatic participants of the FGP.
2. To graduate in the FGP, a farmer will need to prove competency in a number of areas so as to receive a certification underwritten by the state, commercial financial institutions, and financial intermediaries. This certification will command authority as well as contain the vital information to enable a financial institution to decide on the application of a farmer for credit.
3. In the final analysis, the FGP seeks to ensure that: the inherent market mechanisms to enforce financial discipline are not undermined or hindered, incentives are provided for the upward movement of farmers onto higher levels of operations where interest rates are often lower and more is known about the farmer by financial institutions.

IFA Structure on Financial Assistance (IFA-FA)

4. Agriculture is a concurrent competence. This implies that national and provincial governments have the responsibility and accountability for the sector. It is therefore necessary to determine an agricultural financial policy from the collective IFA process so as to create an enabling environment .

AFAP Monitoring and Evaluation System (AFAP-M&E)

5. AFAP-M&E is aimed at monitoring the compliance of financial institutions with norms and standards as well as key performance indicators.

1. INSTITUTIONAL AND LEGISLATIVE REFORM

Institutional reform

1. Success in broadening access of financial institutions to farmers will involve the reform of structure in relation to their roles, functions and relationships. It will also entail re-examining the mandate and legal status of these financial institutions.

The role and function of Government

2. As has been mentioned in the Strauss report and the Ministry of Agriculture documents—the AFAP and the van Empel report of 1995—the State should cease its direct involvement in agricultural credit delivery, as it lacks the infrastructure and expertise to deliver and recover credit efficiently. Also financial beneficiaries will consider state credit as the last to be repaid.
3. The role of the Government or its institutions is mainly to provide incentives and instruments to private based actors in the market to change their behaviour and or adjust their activities towards the policy objectives of the Government. In this particular case increasing access to financial services for emerging new farmers, etc.

4. As a starting point the present role and relationship of the ACB and Financial Assistance Directorate will be redefined by:
 - o phasing out the direct credit delivery function of the ACB as recommended by the AFAP and the Strauss Commission; and
 - o phasing in the facilitative role of Financial Assistance Directorate in broadening access of agricultural finance to farmers through the design of financial instruments.

The roles of the National and Provincial Departments of Agriculture and their relationship

1. Agriculture is an economic sector and therefore national level needs to ensure that no unfair competition will be practiced, by means of highly differentiated support levels given by the different provinces. This is in line with the powers and functions of national and provincial governments provided by schedule 4 of the Constitution.
2. Therefore at a national level the function of the Financial Assistance Directorate should be:
 - o designed financial instruments provided by Government
 - o control and monitoring of the financial instruments
1. At provincial level the functions of the Department should be:
 - o the implementation of the instruments; and
 - o fine-tuning of financial instruments based on the practical circumstances at the provincial level, and on the pre-determined variations allowed in target grouping, eligibility criteria and support levels.
1. To also ensure that there is joint responsibility and accountability between the national and provincial departments, the financing of these instruments should be preferably done on a 50/50 basis.

Development Corporation and DFIs

2. Taking the above into account it is essential to clearly define the role and function of Government, Development Corporations and DFIs in rural development in general and agricultural development in particular. In South Africa there is little transparency in the division of the role and function between the different actors at both national and provincial level, which reduces the possibilities for adequate control and monitoring.
3. Taking the functions of the three above mentioned actors into account, the following major division can be made:
 - o Government Departments and Development Corporations are budget operated institutions that deliver products, like extension, advise, project planning etc.
 - o DFIs need to be financial return based operated institutions and especially at retail level need to be client orientated, using an all-

finance concept. They have to operate at their own risk, although they have specific development objectives.

1. Both of the above mentioned actors require different form of management and operating systems, mixing the functions into one organisation will result in loss of efficiency with limited accountability and transparency.
2. There is big variation between the different provinces in structures, some have only a department of Agriculture, others have a department of Agriculture a development corporation and a DFIs, others have the DFI incorporated in the development corporation, etc. It is strongly recommended that where a DFI is incorporated in a Development Corporation, to separate these two functions in independent agencies. The development corporations are making development plans and are budget spending orientated. The DFI has to be able to make its own independent evaluation about the financial viability of these plans before it decides to get involved in financing a project or other initiatives taken by the Development Corporation. This separation will enhance the transparency of the operations of the two organisations and will increase the quality of decision making. With regard to information exchange there should not be a "firewall" between the two activities but in operations there should be a "strong firewall".
3. During the implementation phase both organisations need to co-operate and agree on who will be responsible for what. This should be also laid down in the project loan agreement.
4. As has been mentioned earlier no preference is given to whether the activities of the Department and the Development Corporation are integrated or separated with respect to services provided to the farming community. However it is strongly recommended that clearly defined year plans are made for these activities using the format of a business plan. This should include: mission statement with objectives, quantitative targets, means required and products to be delivered.
5. In order to enhance beneficiary participation it is recommended that a Board is created with strong participation from beneficiary representatives, which should approve the year plan and monitor progress.
6. The DFI needs to be operated as an independent financial institution, with specific development objectives like improvement of access to financial services for the emerging farm sector and or rural entrepreneurs. To enable this it will need to have access to some specific financial policy instruments. However it will have to carry the full financial risks of its operations. It will have to make a business plan comparable to any other financial institution. Although the State can be shareholder, the State should never force the institution to finance a specific client or activity at its own risk which is deemed from a risk evaluation point of view unacceptable.
7. Based on the earlier mentioned risks related to sectoral financial institutions, the DFI needs to be allowed to be involved in the financing of different sectors and to provide besides loan products also other financial services, like current accounts, savings deposits etc.
8. Most DFIs are supposed to practice retail banking, while they are structured like a wholesale bank. This makes it impossible for them to improve access to credit for small emerging entrepreneurs including farmers at an acceptable risk. Proximity to borrowers that require only a small loan is very essential to be able to manage a loan adequately. They have the following options to become an effective retail bank:
 - a. to develop an extensive branch network; or

- b. to link up with institutions that have this network; or
 - c. to develop these institutions.
1. As the commercial banks are not interested nor have the network to provide financial services to the target group, only option (a) or (c) in paragraph 5.18 are available. Option (a) would result in the development of a State Bank that can provide all the required financial services in the rural areas. As it is government policy to privatise and to reduce the role of parastatals this is not a viable option either. This leaves option (c) which will be further elaborated in the chapter dealing with the village banks.
 2. If the recommendation is taken over that DFIs should be allowed to develop into a financial institution based on an all finance concept the following steps have to be taken:
 - o Making the DFIs operations independent from other government institutions.
 - o Ensure that the financial ratio's of the DFI are adequate, like ensuring sufficient equity, improve the quality of the loan portfolio, many will need a bad loan work-out department, etc.
 - o Transform the operational system comparable to a commercial bank.
 - o Improve quality of staff, as there is limited banking know how presently employed in the D.F.I's
 - o Make the required legal amendments that govern the operations of a DFI
1. It is recommended that a five year time period is set to make the necessary changes and to wean out any direct State financial assistance. For each D.F.I a plan should be made with specific yearly operational and financial ratio's targets, during this restructuring period.
 2. It is advised that consultants are hired with substantial operational banking know-how to assist in the transformation of the DFIs
 3. It should be studied under what conditions the provincial Land Bank branches can be incorporated in this new structure, especially concerning the so-called retail role of the Land Bank towards commercial farmers and land reform beneficiaries. The concept of sectorial Wholesale Banks as recommended in the Strauss report becomes much more transparent if the regional branches geared to retail services are incorporated into the new DFIs.
 4. The role of Agricultural Production Co-operatives in rural development in general and in credit delivery in particular should be reviewed. They should cease to operate as a financial intermediaries as that conflicts with their main objective to create turnover from sales to the same borrower. They also lack the skills and the operational systems to perform banking functions. Experience in Brazil and other countries has shown how dangerous it is for production co-operatives to be involved in banking. Many of these co-operatives have become insolvent due to their banking activities. Their equity is also insufficient in relation to the exposure of their loan portfolio.

The role of first tier financial institutions in providing effective financial services

5. In the previous chapter the conclusion has been reached that DFIs are not able to effectively provide financial services at retail level to emerging farmers and rural entrepreneurs, the same can be said about other financial institutions operating in South Africa. At community level initiatives are being taken by NGO's and other institutions to develop community banks, village banks etc., all with the objective to improve financial services to the rural community. Unfortunately many of these initiatives are piecemeal solutions, with limited if any, effective backward and forward institutional linkages.
6. With the current approach towards these institutions, their sustainability has to be seriously questioned, as they can provide, as single independent financial intermediary, only limited services. Under the current conditions this is already insufficient for the current top entrepreneurs at village level, like shop keepers. They already require some form of money transfer systems. Therefore with the current concept, the best that these institutions can hope for, is that they assist a client to become a client of a commercial bank. This leads to institutions that can only serve the lower segment of the financial services market at the village level, resulting in a very small portfolio and therefore high operational costs, with a high dependency on subsidies also in the long term and a low viability.
7. The sustainability and viability of these institutions can only be enhanced if they are capable to develop their services at they same rate as the financial services needs required by the top segment of their clients/members. Their development according to these lines will also reduce their dependency on subsidies.

The relationship of first tier and second tier institutions

8. Taking cost efficiency into account it is essential that these first tier organisations will have a second tier structure which can do the treasury function, operate the payment clearing system of the total organisation, etc. It is envisaged that the transformed DFI can do these functions, which also would mean that over time they should be jointly owned by the village/ community/co-operative banks in a province.
9. The current initiatives taken at village level are strongly tilted to savings mobilisation, for which they keep an account with a commercial bank. They are still are very limited in any activities within these institutions to use the savings they mobilised for rural credit, therefore currently they contribute to the outflow of rural savings towards the urban economical sector.
10. If these institutions want to play a role in the development of a diversified rural economy, they need to have as an objective to provide credit to the rural sector in a sustainable and effective way. This objective would be similar to credit co-operatives as they operate in many countries. Although a lot of attention is given in credit co-operatives to savings mobilisation, this is essentially considered a tool towards its objective and not an objective in itself.
11. Essential aspects associated with the development of these institutions are :
 - o Self-reliance, self governing and strong member participation are the basic governing principles of these institutions.
 - o A strong bottom-up approach has to be practised without any interference from the State.

1. The State should create the appropriate enabling environment and instruments to facilitate their development. This includes appropriate legislation, assistance in development, like training of staff and board members, expertise in local institution building and empowerment, transaction cost subsidies, limited saving guarantees, etc.
2. They need to have a clear objective, like providing members in an efficient and sustainable way credit. This implies that they are economic instruments for the community, as they can not finance at their own risk a member with insufficient payment capacity. In other words they can strongly improve excess to financial services for the rural community, but they can not provide social support like income support to the needy in the community. They can however play an important role in vitalising the rural economy and can be an important instrument in the development of a diversified rural economy.
3. Standardised statutes need to be used that govern the operation of the organisation including the role and function of the elected board of directors, the general assembly of members, etc. No barriers for membership should be established, however any local entrepreneur that applies for credit has to become a member. For members of the community that only use the savings services, membership should be optional.
4. They have to be based on an all-finance concept in other words providing the required financial services to their members and across economical sub-sectors.
5. Spreading the loan portfolio over all economic activities is essential in order to minimise sector risks. At the same time client risk will be managed better if all the banking services of the client are done through one institution.
6. Taking the financial market in the villages into account at this stage of the development, the operations of these institutions can be standardised, as there is very limited if any need for individual client designed financing products. Standardisation will reduce transaction costs and will require only limited banking skills of the staff employed.
7. High loan recovery rates are essential for the sustainability of these institutions. Factors that determine this are, besides the normal banking based evaluation and monitoring processes, that a community based financial intermediary is better capable to evaluate the character of the borrower, his management skills etc. than most commercial banks or DFIs. Community peer pressure will have a positive effect on the attitude of the borrower towards loan repayment.
8. These institutions will need in a relatively short time a second tier structure, which they jointly own for treasury activities, payment clearing systems, servicing larger clients, development of new banking products, training etc. It is recommended that the DFI will be transformed into this function. Decision should be made soon on this subject including the expected timeframe, in order to enable the first tier institutions to develop a relationship from the start with the DFI knowing that they will jointly own this institution within the set time frame. It is recommended that at maximum a 5 year period is set.
9. The Mutual Banking Act appears to be the most appropriate legal structure that governs the operations of these institutions. However it should be closely studied whether amendments are required to enable these institutions to operate on an all finance concept as described earlier. In essence these institutions are co-operative banks.
10. It is recommended that the different currently operating rural financial intermediaries like community banks, village banks etc. operating on different concepts are

transformed into institutions that operate according to the same concept, so that can become part of a system.

11. The work done by the Financial Services Association regarding the establishment of Financial Services Co-operatives (Village Banks) should be considered a good starting point for the development of the envisaged rural banking system.

Rural Financial Institutions Development Council

12. The policy responsibility for rural development in general and rural financial institutions in particular is vested with different government departments.
13. Therefore it is recommended that a Rural Financial Institutions Development Council is established under the chairmanship of the Ministry of Finance.
14. Members of this council should include, representatives from the Ministry of Agriculture, Ministry of Trade and Industry, Ministry of Housing, Reserve Bank etc.
15. The council should, however, also include representatives of NGO's and Farmers and Medium and Small Enterprises organisations.
16. The role of the council is:
 - o to create the appropriate legal framework
 - o develop the appropriate instruments like transaction cost subsidy fund, etc.
 - o ensure that sufficient budget resources are made available to develop these institutions. It is recommended that 50/50 finance will be made available by national and provincial level.
 - o supervise the activities of the National Implementation Unit for the development of rural financing institutions.
 - o supervise the restructuring and repositioning of the DFIs

1. Taking the above into account an enlarged Co-ordinating DFI Development Council as suggested in the Strauss report could fulfil the above described role.
2. It is recommended that similar structures are formed at the provincial level, they have to concentrate strongly on the practical implementation, which should be carried out by the provincial implementation unit.
3. Until the restructuring process of the DFIs as described earlier is well under way towards its second tier function, it is recommended that the national and provincial based service organisations will operate independently from an existing financial intermediary or government department. At a later stage (3 to 4 years) these functions can be taken over by the D.F.I./second tier structure.

The National Implementation Unit

4. The main tasks of the NIU should be
 - o design and implement a publicity campaign;

- o development of standardised manuals, operational guidelines, banking products, statutes, etc;
 - o design a simple loan evaluation point scoring system;
 - o development of training programmes;
 - o give trainers training courses to staff of the Provincial Implementation Units;
 - o assist in the creation and co-ordinate the work of the provincial credit inspectors;
 - o disseminate information received from the loan level into relevant policy recommendations and make suggestions to the Board concerning the appropriate enabling environment;
 - o co-ordinate with the National Reserve Bank the creation of the appropriate legal structures; and
 - o manage the created specific instruments like transaction cost subsidy fund, savings, guarantee etc.
1. The NIU should be guided and directed by the Board of directors. Total staff numbers at the NIU should be approximately six. Expertise required will be:
 - o rural banking
 - o institution building
 - o legal expert
 1. One of the staff members should be strongly related to the NGOs. The FSA should be incorporated into the NIU or it should be given the task of a NIU

Provincial Implementation Unit

2. The main tasks of the PIU should be:
 - o stimulating the establishment of the village banks;
 - o identification of the proper initiators in the rural areas, who can be the driving force behind an initiative to develop a village bank where relevant in co-operation with NGOs;
 - o carry out formal and on the job training of staff and board members;
 - o assist in the treasury aspects especially in the negotiations with financial intermediaries (preferably the DFI) to the open and account for the village bank on the best possible terms;
 - o transfer based on their own wish, existing rural banks or similar organisations into village banks;
 - o carry out credit inspection;

- o report to the Provincial Board and the NIU about the financial data, progress and problems encountered.
1. It is proposed that the Board at Provincial level should consist of representatives of provincial organisations similar to the national organisations mentioned. It is anticipated that staff numbers at each PIU should approximately be four initially.

Implementation and budget.

2. After a broad based consensus has been reached on the concept, the NIU should be established, or the FSA. should be transformed. The first task would be to fine tune the concept and to work out all outstanding issues, like legal aspects, etc. This should be done under close supervision and cooperation with the envisaged council.
3. This should be followed by the establishment of at least three PIU's in those provinces that have already some forms of rural financial institutions. At the end of year one all provinces should have a PIU.
4. The establishment costs of a village bank are estimated at R 30.000—this includes the salary costs of the employees during the first year. In the subsequent year 50 % of the salary costs can be subsidised. After that the village banks can make use of the more generic instruments to improve access to credit like a transaction cost subsidy fund etc.
5. It is estimated that a village bank with a total portfolio of R 1 million can be profitable.
6. The targeted starting date is proposed April 1997.
7. During the first year it is estimated that 20 village banks will be started:
 - o In year two it is targeted that 100 village banks will be established
 - o In year three the target should be 200 village banks to be established.

1. Budget estimates in million Rand:

	Year 1	Year 2	Year 3
Operational cost NIU	4	5	6
Operational cost PIUs	6	18	20
Subsidy operational cost village banks	1	4	8
Total	11	27	34

Legislative reform

2. The starting point in devising a strategy for legislative and institutional reform is to take cognisance of the state intervention in financial markets. It requires a regulatory legislation which will serve as a basis for drafting national and provincial legislation in accordance with the provision of the Constitution.

3. In drafting the national legislation pertaining to agricultural financing the powers and functions of two levels should be in line with Schedule 4 and Section 146 of the Constitution Bill. This implies that the Agricultural Financial Assistance Bill (AFAB) should make provision for :
 - a. the aims and target of the AFAB ;
 - b. a framework for agricultural finance;
 - c. financial and other related assistance to farmers;
 - d. schemes aimed at broadening access to agriculture;
 - e. disaster assistance and vulnerability;
 - f. an Agricultural Financial Assistance Fund; and
 - g. a framework for provincial legislation.

Aim and target of the AFAB

1. The FGP implies that agriculture has a broad spectrum of farmers with different kind of needs which can be met through applying different instruments. The AFAB should therefore be targeted to all farmers so as to avoid falling into the trap of targeting beginner farmers as the sole beneficiary of financial assistance. It will also put into context the concept of farmer graduation i.e. facilitating the development of resource poor beginner farmers as well as facilitating the entrance of farmers at any point of the continuum in the FGP.

A framework for agricultural finance

2. The assistance of farmers under this Bill should be within a national framework as stipulated by Section 146 (b) ii of the Constitution. Given the diverse needs of farmers and diversity in the provinces, the AFAB should be enabling in relation to meeting these needs. It should also be regulatory where issues pertaining to the implementation of AFAP need to be dealt with uniformly across the nation. These relate to interest rates and incentive schemes necessary for broadening access of financial assistance to farmers.

Financial and other related assistance to farmers

3. Under the AFAP there is financial assistance relating to credit and no-credit because the needs of the farmers are not only for credit but for other support services such as markets, extension and training. However all these needs have financial implications which the AFAB should make provision for.

An Agricultural Financial Assistance Fund (AFAF)

4. In line with the credit and non-credit needs discussed above the Bill should make provision for a fund which will be used to finance these needs. At present the Department has two funds which consist of a credit account generated nationally in terms of ACA and the Agriculture Development Fund generated in terms of Agriculture Development Act 1993 (Act 175 of 1993).
5. To avoid having two funds under different Acts running parallel to each other the Bill should provide for a AFAF. To facilitate the payment of debts and the transfer of these funds to AFAF, the AFAB should also provide for a debt management scheme

which is in the process of being implemented. In essence the debt management scheme is a tool which will be used for transforming the credit account to development assistance schemes aimed at broadening access to financial assistance. It is therefore a powerful and effective instrument for restructuring agricultural financing as it also facilitates the shift from direct lending by the Department Agriculture to supporting and developing the capacity of financial institutions and farmers.

Schemes aimed at broadening access to agriculture

6. Given this diversity of farmer's needs, the AFAB should provide for schemes which should meet these needs, by the use of different financial instruments. However, the AFAB should not be prescriptive about the detail of the scheme as these will be developed after consultation on the needs of farmers before being gazetted. The objective of these schemes is to remove the constraints that increase the risks and costs associated with the risk and therefore criteria and requirements for their access should be aimed at removing the constraints. The principle for the design and access of such schemes will be dealt with later.

Disaster assistance and vulnerability

7. Natural disasters such as floods, runaway veld fires, severe droughts and untimely frost can totally disrupt communities and can put farmers, over the spectrum of farm sizes, out of business. Such disasters do not include natural phenomena which occur on a regular basis, such as intermittent droughts in the stock-production areas and hailstorms in hail-prone areas. In the case of natural disasters it is in the interest of the country as a whole that the Government should take steps to counter unacceptable consequences for the rural economy. Such steps could include financial assistance to the agricultural sector.

Framework for provincial legislation

8. A national enabling act within which provincial legislation will operate is necessary and should be in line with Section 146 of the Constitution. National legislation should enable Provincial legislation to implement national policy. However, efforts to implement national policy would be hampered if provincial legislation is not coordinated. National legislation also has to be regulatory so as to prevent unreasonable action by the province that is prejudicial to the economy of another province or the country as a whole or impedes the implementation of economic policy.

1. FINANCIAL INSTRUMENTS

1. For each strategy discussed in Section five, there is a need to develop instruments for implementing a new agricultural financial assistance policy. As stated earlier an important aspect of Government policy is to improve access to credit, especially with regard to economic activities, to new starting enterprises, which have currently no access to financial services. Due to past policies, currently only a small part of the South African population has access to a wide range of financial services. In order to stimulate economic growth improved access is considered an essential element of overall government policy.
2. At the sectoral level the Department of Agriculture has as one of its policy objectives to improve access to financial services, especially credit to new emerging farmers. For this purpose it wants to put some policy instruments into the market to stimulate financial intermediaries to provide better financial services to the target group. At the same time the Department wants to cease its direct involvement in providing credit to end-users or financial intermediaries.

3. In order to effectively design policy instruments that will improve access to credit, it is important to analyze the reasons for poor access. The main perceived reasons given by financial intermediaries are:
 - a. perceived lack of securities/collateral that can be offered by emerging farmers;
 - b. low rate of return in project financing due to the investment required; for improving the agricultural infrastructure, this applies strongly to farm settlement schemes, etc;
 - c. high transaction costs involved in credit delivery to the target group. This involves two elements:
 - o high cost to manage a credit cycle for small loans; and
 - o lack of banking network close to the beneficiaries, as banks are mainly located in urban areas, far away from a large part of the targeted beneficiaries.
- a. High agricultural sector risk. This can be divided in three categories:
 - o market risk, mainly price;
 - o weather related risks; and
 - o management risk, low level of education/experience.
1. Taking the above reasons into account, Government can bring some policy instruments in the market, which would reduce the impact of the above given reasons on access to credit for the intended target group. The following instruments are proposed:
 - A. Credit guarantee scheme to reduce the impact of the lack of securities/collateral.
 - B. Project finance fund which provides grants to partially finance projects which will increase the rate of return to acceptable levels for the financial intermediary that provides the loan.
 - C. Transaction cost subsidy fund to reduce the transaction cost for the financial intermediary that provides loans to the target group.
 - D. Crop Insurance Scheme to reduce weather risks and to replace ad-hoc drought relief schemes.
 - E. Development of a rural financing system based on the village bank concept as described in chapter 4.
 - F. Extension services to reduce the management risk. For price risk no instrument should be developed, as this will lead to market distortion. Price risks are as in any other sector normal market risk which needs to be born by the producers and/or financial intermediaries..

A Credit Guarantee Scheme

1. The target beneficiaries of this scheme should be emerging farmers, including farmers in settlement schemes and farmers mainly on leased land or communal land.

2. A guarantee scheme can only eliminate the problem of lack of collateral and not solve the problem of lack of payment capacity. Payment capacity for a family farmer should be calculated on the basis of total family income from all sources, minus production expenses and family cost of living expenses. The positive balance gives the repayment capacity. The ratio is calculated by taking the payment capacity and divide this by the liabilities resulting from the loan and possible liabilities from other loans (interest and yearly repayment on the principle) . A ratio of 110% should be deemed as a minimum for any loan that can qualify for the agricultural credit guarantee scheme.
3. Loans that will qualify:
 - o minimum 110 % calculated payment capacity ratio
 - o production loans to one farmer up to R10 000
 - o medium term investment loans to one farmer up to R100 000
1. Although production loans are eligible, this should be phased out in a three year period, as normally a production loan financing is not based on fixed assets but on crop and other type of pledges, which normally need to be sufficient to qualify for the right amount of a production loan. Maximum guarantee given will be 40-60% of the non-recoverable part of the loan. The guarantee scheme will only cover the principal of the loan amount and not the interest payment part.

Another condition for qualification under the guarantee scheme is that the farmer has access to extension services and training. This should stimulate the extension services to concentrate in their operations to emerging farmers.

2. Financial intermediaries that want to qualify for the scheme have to provide proof that their administrative procedures are in order. In other words they have to keep adequate loan files in which can be found: loan application form, loan approval form, loan document with the appropriate conditionality, proof of loan disbursement to ensure that the loan is used for the purpose it was intended for, documentation of actions undertaken during non-performance of the loan.
3. All the conditionality mentioned above can be found in the loan file, which makes control and monitoring of the guarantee scheme relatively easy. Based on the eligibility criteria the financial intermediary can easily judge that a loan qualifies for the scheme. Therefore they can in most circumstances go ahead to approve the loan and disburse the loan before official notification has been received that the loan has been accepted by the scheme.
4. Acceptance of a loan in the scheme is given by the Provincial Credit Guarantee Board, which consists of representatives from the Department of Agriculture and representatives from farmers organisations, in total 5 members. They will meet every two weeks and keep proper records of the procedures of their meetings.
5. Monitoring and control will be basically carried out by random sampling of 10 loan files at the financial intermediary, as all the criteria used are normally in the loan file, followed by a visit to 5 beneficiaries. The Directorate of Financial Assistance is responsible for the control and monitoring function.
6. Claims that are made against the fund will be approved by the Provincial Board. Financial intermediaries that make the claim have to give ample proof that they have done everything possible to fully recover the loans. Records about visits to the farm etc. have to be handed over, including notices given to the non-performing borrower and proof of all payments received related to the particular loan.

7. After a claim has been approved, the guarantee fund manager at National level will make the payment to the financial intermediary concerned.
8. At National level only a 40 % guarantee will be given, provinces have the option to increase this with maximum 20 % at their own risk.
9. It is proposed that at start up R20 million will be deposited in the fund. This should cover at a presumed recovery rate of 80 % with a 40 % guarantee a loan portfolio of R250 million. This is perceived to be sufficient for the coming years, although no detailed analyses have been made about the potential portfolio that could be covered taking into account credit demand from the target group.
10. The assets in the fund should at least get a return of 15% on an annual basis.

B Project Finance Fund

11. A project fund for special projects that grants assistance for small farming development is already operational. The guidelines give a good overview of the target group.
12. Recommendations here made are to further fine-tune the operations of the fund.
13. Funding of the projects consists of three elements: own contribution from the beneficiaries, credit from a financial intermediary and grant funding from the State.
14. It is essential that financial commitment from the three sources is obtained and guaranteed before a project is implemented. Disbursement of the credit and grant should be done in equal portions. For practical and transparency reasons the disbursement controls of both the grant and credit portion should be carried out by the financial intermediary and not by the implementation agency of the project, like a Development Corporation.
15. The responsibility for project development and implementation is with the Provincial Authorities. Therefore it is also advisable that the grant fund is provided on a 50/50 split between the province concerned and the National Project Fund.
16. Approval for a project is done by a Provincial Project Development Board consisting of representatives of the relevant provincial departments, DFI and representatives of farmers organisation.
17. The maximum grant element set for a project should be 40 %, project implementation should be maximum 2 years and the maximum amount of grant funding per project is R2 million. Large projects with a large infrastructural component, should not be eligible for the fund, as decision making and preparation demands a much more elaborate process than foreseen in the guidelines.
18. In order to enhance the transparency of the decision making process and in order to be able to monitor projects effectively a uniform point scoring system should be used according to the following parameters:
 - o sustainability and viability after grant financing is stopped from a financial, institutional and beneficiaries commitment point of view—max. score 3
 - o cost per beneficiary, the lower the better—max. score 2

- o rate of introduction of new technologies or institutional structures—
max. score 3
 - o availability of support like extension, training, design services etc.—
max. score 2
1. It is advised that these parameters are further quantified. Each project approved should have a minimum score of 7.
 2. The National Fund will make its own evaluation once a year of the projects approved.
 3. If major deviations occur during project implementation concerning impact and result from the projected figures, the Provincial Board will review the project and makes recommendations about remedial actions to be taken. These need approval from the National Fund, before the project can be continued.
 4. Based on a 50/50 grant funding the National Project Fund should obtain R40 million from the Central Government budget.

C Transaction Cost Subsidy Fund

5. Many in principle bankable emerging farmers and other rural entrepreneurs have no access to formal credit because the loans they require are too small in comparison to the transaction costs in supplying these loans. Transaction cost involves loan application, evaluation, agreement, disbursement, monitoring and collection. The transaction costs of a small loan of R1 000 are nearly as high as for a loan of R30 000. As normally the transaction costs should be covered by the interest rate spread (difference between interest on funding versus. interest rate on the loan), this would mean that very high interest rates should be charged for small loans. This is taking the development objective of improved access to credit for this target group not feasible nor acceptable.
6. The problem of high transaction costs is further aggravated by the fact that most emerging farmers are relatively far from the offices of the financial intermediaries. This makes the proper assessment of loan and borrower more complicated and, therefore, costlier. The related institutional issue is dealt with under the proposal to develop a rural financial system.
7. It is proposed to establish a transaction cost subsidy fund in order to improve the accessibility to credit for farmers and other emerging entrepreneurs. This issue is related to emerging entrepreneurs in all sectors of the economy, therefore, the responsibility for the fund should be interdepartmental, with the Ministry of Finance as the manager of the fund. An alternative is to create the fund under the envisaged Development Council as foreseen in the Strauss report.
8. Target group: Emerging entrepreneurs including farmers that have never received formal credit or only ones before.
9. Eligibility criteria:
 - o payment capacity ratio needs to be minimum 110% as calculated in the loan evaluation form.
 - o short term loans like production loans up to R10 000
 - o medium term loans up to R20.000

- o production loans for one particular borrower can get transaction cost subsidy for maximum three years running
 - o medium term loan for one particular borrower can get transaction cost subsidy only ones.
1. Based on a preliminary estimate the following subsidy levels are envisaged:
 - o Short term credit:
 - amount; R500–1 499 subsidy; R200
 - amount R1 500–4 999, subsidy R150
 - amount R5 000–9 999, subsidy R100
 - o Medium term loan:
 - amount R3 000–9 999, subsidy R200
 - amount R10 000–20.000 subsidy R100
 1. It is recommended that precise calculations will be carried out based on the most efficient form of credit delivery by a financial intermediary , in order to establish the final subsidy levels.
 2. Financial Intermediaries that want to utilise the fund need to sign a contract that they will not split up loans and that they will follow the eligibility criteria as described. They can sent in ones a month an invoice for the amount of subsidies due. On the invoice should be mentioned the name of the borrower, size of loan, loan type and loan file number.
 3. After receiving the invoice the fund will pay within 30 days the amount due to the financial intermediary.
 4. Each financial intermediary participating in the scheme will be random checked using the loan file numbers, some visits will be made to borrowers to ensure that all criteria are followed. Only in the case that misuse of the scheme is expected, based on the result of the random checking, a more thorough investigation will take place.
 5. The financial intermediary will in cases of misuse have to refund the received subsidies and will be given a 200% fine.
 6. The fund will be managed at provincial level because only retail banking institutions are involved in lending to the target group.
 7. The fund should be initially capitalised to the level of R20 million. Also here a 50/50 split in contributions by National and Provincial Authorities is recommended.
 8. After further fine-tuning the eligibility criteria and the setting of the subsidy levels, the transaction cost subsidy fund should become operational by may 1, 1997. Eligible financial intermediaries should be informed about the establishment of the fund as soon as possible.

D Crop Insurance Scheme

9. The past practices of relief schemes related to drought and other weather related disasters, accompanied by debt forgiveness have given wrong market signals, like a negative effect on loan recovery. Due to political and other reasons, it is anticipated that the State will be inclined to intervene with different forms of relief measures when weather related disasters occur. It is recommended that a more market related measure is taken, which makes it possible for farmers to take out an insurance against the effects of these disasters, in the form of a crop insurance scheme. This can also include the livestock sector. This scheme should only cover commercial farmers and emerging farmers that produce for the market.
10. For household basically subsistence farmers traditional State funded social programs will have to remain operational in the case of natural disasters.
11. As it is anticipated that is not feasible that the private sector alone can implement a crop insurance scheme with a wide coverage at an affordable rate, the State will have to partially sponsor the scheme.
12. Involvement of private based insurance companies that will manage the scheme and collect the premiums, is essential.
13. As insufficient data are available to provide a blue print for such a scheme, it is proposed that a task force is formed to work out the details for a crop insurance scheme. The task force should include representatives from the Department of Agriculture, Ministry of Finance and representatives from insurance companies that might be interested to operate a crop insurance scheme. Some outside consultants could be also hired for the development of the plan.
14. The task force should present its plan by May 1, 1997. If decision making moves quickly a comprehensive crop insurance scheme could be operational before the 1997/1998 season.
15. Without trying to be complete the following aspects should be taken into account in the work of the task force:
 - o Zoning has to be closely studied and should result in excluding some agricultural practices from coverage under the insurance. This is particular applicable to crop growing in very drought prone areas, where even in a good year only marginal returns can be obtained. This will result in the return of these marginal areas to extensive livestock production. This is from a soil conservation point of view also the preferred option.
 - o Extensive livestock production will be only covered when appropriate stocking rates are applied. Therefore zoning and establishment of appropriate stocking rates for each zone, which determines the eligibility of producers to receive coverage under the scheme has to be worked out in detail.
 - o A balance will have to be found between the involved risk and the return per unit area.
 - o The premium should not add more than between 2–4 % to the production cost for the crop involved. The balance will have to be subsidised, partly through cross subsidisation from the low risk areas and partly through the State budget.

- o State budget subsidies should be concentrated in the first two years in order to capitalise the scheme sufficiently. After this period no or very limited subsidies should be given anymore.
 - o In many cases of natural disasters resulting in a drop of production, market prices for these products will increase, which will offset partially the financial consequence of the disaster. Therefore insurance coverage should not be related to yield but to financial return per unit, taking into account the production zone.
1. An important side effect of a crop insurance scheme is that it will improve access to credit as it reduces the risk for financial intermediaries in agricultural financing. At the same time when such a scheme is available financial intermediaries will put in their loan conditions that crop insurance coverage is taken out by the borrower.
 2. Another important effect of the scheme is that appropriate agricultural management practices will be encouraged and in some cases rigorously enforced. This should be considered an important policy objective, that can be achieved through State fund contribution in the scheme.
 3. After the system is in place the State should also exercise discipline, meaning that no bailouts will take place to farmers that can get insurance coverage; commercial farmers and emerging farmers involved in market related production. Only subsistence farmers will still need direct State assistance in case of a serious natural disaster.
 4. It is strongly urged that the task force which has to work out all the details for such a broad based crop insurance scheme is formed as soon as possible