Investing in rural people

Kingdom of Swaziland [1]

Financial Inclusion and Cluster Development (FINCLUDE)

Final project design report

Main report and appendices

[1] Refer to page v for clarification regarding the name of the country.

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Important information

Effective 19 April 2018, the Kingdom of Swaziland has been renamed as the Kingdom of Eswatini. At the time of finalising the design report, the full magnitude of the name change is still to be defined particularly as regards names of institutions and policies, and for consistency and ease of reading, no changes have currently been reflected in this report.

Currency equivalents

Currency Unit	= SZL - Emalangeni (plural)
USD1.0	= SZL12.72

Weights and measures

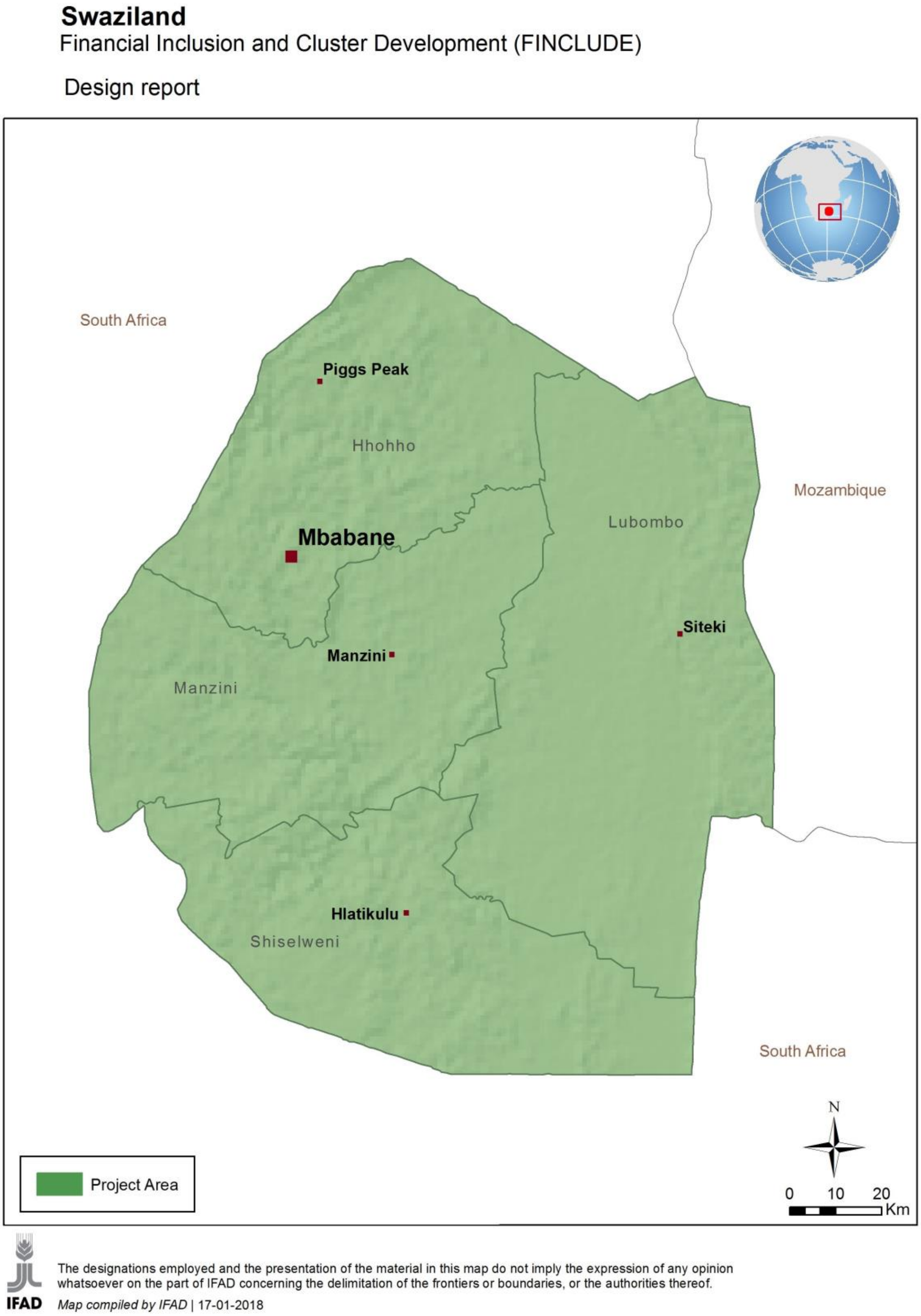
1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

ACAT	African Co-operative Action Trust Lilima
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
B2B	Business to business
BDS	Business development services
BSM	Business Skills Mentor (FINCLUDE)
CAR	Capital adequacy ratio
CBS	Central Bank of Swaziland
CBSCG	Community based savings and credit groups
CDD	Cooperatives Development Department MoCIT
CDP	Capacity Development Provider
CDO	Cluster Development Officer (FINCLUDE)
CDT	Cluster Development Team (FINCLUDE)
CDTL	Cluster Development Team Leader (FINCLUDE)
CEPD	Capacity Enhancement and Policy Development Facility
CFI	Centre for Financial Inclusion
CPRF	Community Poverty Reduction Fund
CM	Cluster Mobilizer (FINCLUDE)
CMS	Cluster Mobilization Supervisor (FINCLUDE)
CSARLP	Climate-Smart Agriculture for Resilient Livelihood Project
ECS	Export Credit Scheme
EU	European Union
FI	Financial Institutions
FINCORP	The Swaziland Development Finance Corporation
FIRM	Financial Instrument for Risk Management
FNB	First National Bank
FSDIP	Financial Sector Development Plan
FSRA	Financial Services and Regulatory Authority
GALS	Gender Action Learning System
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GoS	Government of Swaziland
JA	Junior Achievement Swaziland
KYC	Know Your Customer
LIA	Lead Implementing Agency
LUSIP	Lower Usuthu Sustainable Land Management Project
MCM	Multi-stakeholder cluster meetings
MFI	Micro Finance Institution
MFU/CFI	Micro Finance Unit now Centre for Financial Inclusion
MIS/M&E	Information, Monitoring and Evaluation Officer
MoA	Ministry of Agriculture
MoCIT	Ministry of Commerce, Industry and Trade
MoE	Ministry of Education
MoEPD	Ministry of Economic Planning and Development
MoF	Ministry of Finance
MoSCYA	Ministry of Sports, Culture and Youth Affairs
MoTAD	Ministry of Tinkhundla Administration and Development
MoTEA	Ministry of Tourism and Environmental Affairs
MPP	Micro-projects Programme

MPPCU	Micro-projects Programme Coordination Unit
MSME	Micro-, Small and Medium Enterprise
MTN	Mobile Telephone Network (provider)
NAMBoard	National Agricultural Marketing Board
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
NPL	Non-Performing Loan
PAR	Portfolio at Risk
PD	Project Director (FINCLUDE)
PICSA	Participatory Integrated Climate Service for Agriculture
PM	Project Manager (FINCLUDE)
PMU	Project Management Unit
PRSAP	Poverty Reduction Strategy and Action Plan
PSC	Project Steering Committee
RDF	Regional Development Fund
RFC	Rural Finance Coordinator (FINCLUDE)
RFEDP	Rural Finance and Enterprise Development Programme
SACCO(s)	Savings and Credit Cooperatives
SASCCO	Swaziland Association of Savings and Credit Cooperatives
SCG	Savings and Credit Group
SEDCO	Small Enterprises Development Company
SFIs	Selected Financial Institutions
SHG	Self Help Group
SM	Social mentors (FINCLUDE)
SMLP	Smallholder Market-led Project
SNAIP	Swaziland National Agricultural Investment Plan
SNL	Swazi Nation Land
SSELGS	Small-Scale Enterprise Loan Guarantee Scheme
SWADE	Swaziland Water and Agricultural Development Enterprise
SWAFCU	Swaziland Farmers Cooperatives Union
SWEET	Swaziland Women Economic Empowerment Trust
SZL	Swazi Lillangeni
TDL	Title Deed Land
UNFCCC	United Nations' Framework Convention on Climate Change
UNISWA	University of Swaziland
YEF	Youth Enterprise Fund

Map of the project area



Executive Summary[1]

Country context

1. The Kingdom of Swaziland is a small land-locked country with a population of 1.269 million of which 79% are rural and 21% urban. It is ranked as a lower middle-income country with GNI per capita of USD2,830 and GDP of USD3.72 billion in 2016.[2] The economy of Swaziland has stagnated over the past few years, with GDP growth declining substantively from 2.5% in 2014 to -0.9% in 2016, but with a forecast annual GDP growth of 1.9% for 2017 (ibid). Swaziland is highly dependent on Southern African Customs Union (SACU)[3] receipts, which have accounted for 50% to 75% of the national budget in recent years.[4] The combined effects of a small private sector, large public sector and the reliance on external revenue is increasing the country's vulnerability to fiscal shocks.

2. Income distribution in Swaziland is extremely unequal, with the wealthiest 10% controlling almost half of all consumption and 63% of the population living in poverty. Rural poverty rates vary between 71-76% with 89% of the poor living in rural areas. Swaziland also has one of the lowest life expectancy at birth in the world – at just 57 years[5] (2015) and the highest prevalence of HIV/AIDS in the general population.

Rationale

3. There is an urgent need to provide new opportunities on a massive scale for young rural Swazis to build a better life for themselves and their families. Agriculture is one of the sectors that has the scale to provide such opportunities if Swazi smallholder agriculture can be transformed. The obstacles currently preventing most small farmers taking advantage of these opportunities fall into four domains:

(a) on their farms – typically with very limited market orientation and business skills, producing low value crops, using traditional production practice, poor quality genetics, limited use of appropriate inputs and, increasingly, exposure to changing and unreliable rainfall patterns with limited access to irrigation.

(b) in the market chains linking individual farmers' products to the end customer - which are i) highly fragmented in the "1st kilometre" from the farm-gate (largely as a result of lack of aggregation among small farmers in the marketing of their products), ii) "thin" - lacking competition among buyers and, in some case, iii) severely distorted by the presence of subsidized non-commercial state enterprises.

(c) in the support markets which are an essential element of any competitive agricultural sector – especially for technical, business and financial services. Demand for such services has been suppressed by past development initiatives that have adopted strategies including generous subsidies and the provision of free services, even for aspiring market-driven small farmers.

1 Mission composition: **CFI**: David Myeni, Prudence Musinga and the full CFI team; **IFAD**: Jaana Keitaanranta, IFAD Acting CPM, Francesco Rispoli IFAD PTA Lead Advisor; Nigel Smith, Team Leader; George Polenakis, Financial Inclusion specialist; Frederic Ponsot, Migration and Remittances Specialist; Khadidja Nene Doucoure. IFAD Targeting and gender specialist; Chiqui Arregui, Targeting and gender specialist; Guido Rutten, IFAD Environmental Specialist; Richard Batamanye, Financial Management & Procurement specialist; Jelle Tas, Cost and EFA specialist (FAO); Mohamed El Ghazaly, M&E specialist; David Kahan, Market-based services specialist.

2 Source: http://data.worldbank.org/country/swaziland.

3 SACU comprising Botswana, Lesotho, Namibia, South Africa and Swaziland applies a common set of tariffs and disproportionately distributes the revenues among its members states to the particular advantage of smaller countries.

4 Freedom House, 2013: Swaziland: A failed feudal state.

5 World Bank, databank.worldbank.org

(d) in accessing finance. Private investment must play a major role in delivering large scale change in smallholder agriculture. As such, quality access to mainstream finance for small farmers and rural MSMEs is a vital enabler of change, for increased incomes and resilience. Promoting access to adequate savings services is also highly relevant as they allow low income people to build their capital for investment purposes.

4. The impacts of climate change cut across these four domains. With mean annual temperatures steadily increasing (between 0.1-0.2 °C per decade), within-season drought periods becoming longer and rainfall events more extreme, climate change is having a profound but complex impact on the rural livelihoods. The need for climate adaptation in the agricultural sector is high, as confirmed by Swaziland's national strategies and communications to the UNFCCC. Climate change and variability are among key sources of (perceived or real) risk in investment proposals, but banks do not have the adequate knowledge or tools to properly assess the risk and propose ways to minimize them.

5. FINCLUDE must therefore work in all four domains. It must adopt mechanisms to coordinate the resources alongside other development programmes and initiatives, especially for public good investments – such as RDF, SMLP and Chiefdom Development Plans.

6. Economic growth is necessary but not sufficient to deliver resilient socio-economic change. Recent experience in Swaziland's sugar industry has highlighted the risks of unintended negative social consequences within households and local communities from shifting internal dynamics, triggered by rapid improvements in incomes, which can undermine the benefits of hard-earned economic growth. To reduce such problems, FINCLUDE must mitigate pressing social risks present in the context by integrating targeted social mentoring interventions.

7. FINCLUDE will also benefit from a close working relationship with SMLP as part of IFAD's programmatic country approach, including developing a common approach to inclusive cluster development and potentially extending improved access to tailored financial services to SMLP supported agricultural clusters and farmers. Similarly, SMLP supported communities that fall within FINCLUDE cluster areas will participate in the relevant cluster development processes under FINCLUDE.

Target group and project location

8. FINCLUDE will target "aspiring resource-constrained entrepreneurs" that is, actual or aspiring smallholders and micro-entrepreneurs for selected commodities or taking advantage of emerging opportunities in cluster areas, who require short-term support. Special focus will be placed on i) young men and young women (18-35) engaged or willing to engage in farm and non-farm enterprises in the selected clusters locations; ii) poor rural women and particularly women headed households active along the targeted supply chains and aspiring to business growth. FINCLUDE will have a strong focus on women and youth with specific measures to target youth (men and women) and ensure their major and active participation in the project.

9. FINCLUDE will have a mandate to work across the country based on opportunities for impact. Geographic targeting will be driven by FINCLUDE's cluster development for each commodity. The project will initially focus on five commodities: 1) red meat (beef/goat); 2) poultry; 3) pigs; 4) vegetables; and 5) legume seeds.

Development Objective and impact indicators

10. The total outreach of FINCLUDE will be 18,500 farm and non-farm enterprises.

11. FINCLUDE's Goal is the: "Improvement in prosperity and resilience of poor and vulnerable Swazi smallholders and micro-entrepreneurs." Success will be measured against the targets of:

(a) 8,500 individual entrepreneurs and MSME directly benefitting from a full range of FINCLUDE support ("full beneficiaries") increase profits (real net income) from farm or non-farm enterprise by >50%;

(b) An additional 10,000 individual entrepreneurs and MSMEs take and duly repay collateral free loans under the FIRM without receiving other FINCLUDE support ("finance only" beneficiaries);

(c) 5,600 Individual farm entrepreneurs and MSME direct "full" beneficiaries (80% of total) report a >50% increase in resilience score.

12. The Development Objective is: "To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through resilient links to markets and access to appropriate financial services." This will be measured against the targets of: 6,800 beneficiaries' achieving annual return on labour in farming or non-farm enterprises of >120% of unskilled wage rate.

13. The expected Outcomes are:

Outcome 1	Profits to farm and non-farm micro-enterprises and MSMEs from inclusive clusters increased for multiple higher value products;
Outcome 2	Private investment increased in priority clusters and commodity sectors from smallholders and MSME;
Outcome 3	Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives;
Outcome 4	Climate resilience and climate finance mainstreamed into rural finance operations.

Components

FINCLUDE is presented as three components, each heavily reliant on the other. All major elements of the project are illustrated in
14. Figure 1 and summarized below.

Component 1: Inclusive cluster development

15. Cluster brokering and investment facilitation will catalyse the emergence of competitive clusters for products with confirmed market potential and comparative advantages for smallholder production. The cluster development approach is a rolling process of action-oriented brokering, dialogue and investment facilitation among the key actors in each cluster to catalyse investments and remove bottlenecks to increase trading and profits and make the most of practical opportunities for growth. Driven by the investment priorities set through this process, private and public good investments are likely to be needed, both of which will be facilitated by the project. Private investment will be supported through a mentored investment process with savings and loan financing, facilitated by the project from partners in financial sector if needed. For public good investments, FINCLUDE's role is primarily as an 'integrator' of existing support initiatives of the government and others. Through the multi-stakeholder cluster meetings, FINCLUDE will create a practical mechanism for the various supporters to develop a common understanding of the opportunities and constraints in the clusters and the relative roles each can play in addressing these. In addition, a Sector Development Facility will be created to address gaps in support for critical 'public good' investments not being supported from other sources.

16. Remittance: training modules to support households - both women and men - to better make use of remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment. Similarly, the social mentoring processes will address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families.

17. On climate resilience, the producers will be guided to re-confirm that the product for the cluster they have chosen to join is a sensible choice for them individually given the local agro-ecological conditions and expected local impact of climate change. The process will also help farmers to

consider if there are specific ‘no regrets’ adaptation or investments to their intended production practices and investment plans that would increase the climate resilience of their farm investments, thereby reducing the chances of failure. This process will be enhanced by the Climate Information Services activities in Component 3.

Component 2: Increasing supply of rural financial services

18. FINCLUDE addresses comprehensively demand and supply side constraints. It develops credible rural business value propositions (Comp 1) of size sufficient to entice the appetite of banks and FIs to engage in offering them a range of products catering to rural household needs (from credit, saving to remittance) while it exploits all the available resources of the financial sector and offers incentives to financial institutions to expand their offerings and actively participate in rural business development (Comp 2). In parallel, it strengthens the overall financial literacy and resilience of rural households and supports borrowers in meeting their loan payments on time, and so creditors to mitigate their risks (Comp 1). As such, the two components go hand-in-hand.

19. Activities under the Component 2 include: Addressing the information divide between supply and demand for credit and other financial services through a number of databases and information tools; Partnerships with FIs to increase access to loans and savings services; Financial Instrument for Risk Management (FIRM), which will provide the necessary security to the banks and other FIs so that they can extend loans to farmers and non-farm rural micro-entrepreneurs; Capacity enhancement and policy development facility (CEPD) for capacity enhancement across all its activities pertaining to financial inclusion; supporting Savings and credit groups (SCGs) apex bodies to strengthen their networks and own capacities; For remittance users FINCLUDE will support the development of new products that both link remittance and savings, and; Partnerships to increase the quality of credit demand on wider scale will be established with several external organizations working to improve livelihoods of youth, women and rural people.

Component 3: Climate resilient decision making and investment

20. FINCLUDE, through its core activities in Components 1 and 2, will make great strides in improving financial inclusion thereby removing a key barrier to climate adaptation. Yet beyond connecting producers to financial services and facilitating cluster development, there are specific interventions that can further enhance the overall impact of the project in terms of climate resilience, by building knowledge of the various actors involved and introducing a facility to boost public and private investments that reduce climate risks. These activities, for which funding will be sought from a climate financier, are presented in this component but are tightly linked to the activities in the other two components. The three sub-components are: a) Climate information services intended to enable producers, traders and bankers to use climate information to manage their business; b) Climate Investment Facility to leverage investments in climate resilience by producers, traders and government; and c) Improving access to climate finance to enable long-term access to climate finance for Swazi organisations.

Implementation arrangements

21. Ministry of Finance (MoF) will be the Executing Agency and the Centre for Financial Inclusion (CFI), which implemented the IFAD-financed RFEDP, will be assigned as the Lead Implementing Agency on behalf of MoF and will house a PMU embedded into its existing structures. A Project Steering Committee, chaired by MoF, will be established to provide overall strategic direction and governance of the project.

22. Staff from five implementing partners will be assigned by their respective organizations to work as an integrated part of the project teams at central and regional levels, initially to raise their capacity then later to increasingly lead project activities. The five initial implementing partners are: Ministry of Agriculture (MoA), Ministry of Tinkhundla Administration and Development (MoTAD), Swaziland National Agricultural Union (SNAU) and Small Enterprise Development Company (SEDCO). The Ministry of Tourism and Environmental Affairs (MoTEA), including the Swaziland Meteorological

Service, will be the fifth implementing partner under Component 3 – subject to securing climate co-financing. In addition to these five named implementing partners, FINCLUDE will be open to other organisations from the private and public sectors to second their staff into the project to develop their capacities on a similar arrangement.

23. Technical assistance is provided on several aspects including: cluster development, M&E system development; development and harmonization of databases and MIS systems; social mentoring; targeting; climate information services; climate finance strategy; knowledge management and on activities identified under Component 2, particularly under the CEDP, and to respond to emerging needs during implementation.

24. Financial management and procurement will be based on the existing arrangements at CFI and will be implemented under the same institutional arrangements of the RFEDP.

Knowledge management and M&E

25. FINCLUDE aspires to be a data rich project and a benchmark in its evidence-based knowledge management by adopting a number of innovative techniques to dramatically improve the cost efficiency, speed and quality of data collection and analysis and the use of this analysis to drive project decisions and performance and inform evidence-based policy analysis and development processes.

26. FINCLUDE must also be a learning project. It must learn from itself and others' experiences and have the capacity to rapidly identify what is working well and what is not, why and then replicate the best practices across its work and take corrective measures when needed.

Costs, financing and benefits

27. The total project costs are estimated as USD38.6 million. A combined total public investment of US17.3 million from GoS, IFAD and a climate co-financier is expected to leverage additional private investment of USD21 million from beneficiaries and enterprises.

28. Financing will include USD2.9 million from GoS, an IFAD loan of USD8.9 million, an IFAD Grant of USD0.3 million via the Financing Facility for Remittances and a climate finance grant of USD5 million plus contributions from beneficiary of USD13.8 million and from enterprises of USD7.5 million. The climate financing request is a joint initiative between the MoF and MoTEA to introduce climate aspects to the rural finance sector in Swaziland, and will target one of the major climate financing institutions (Green Climate Fund, Global Environmental Facility, Adaptation Fund). The climate financing contribution is not yet confirmed and a full proposal and application will be developed and submitted during the first half of 2018 so that, if successful, it can start close to the same time as the main FINCLUDE project.

29. **Project benefits.** Project interventions are expected to result in an extensive range of tangible and intangible benefits. Quantifiable benefits include: (i) increased incomes from micro, small and medium enterprises, newly created or expanded through access to working capital or investment loans; (ii) employment opportunities, generated by the expansion of on-and off-farm activities, including self-employment; (iii) increased yields through the adoption of Good Agricultural Practices (GAP), better quality seed (hybrid) and investments in water efficient drip irrigation to improve productivity and enable year round cultivation; (iv) reduced losses from climate-related stress and shocks; (v) increased sales and net margins and more efficient output markets. All these benefits will be generated by supporting access to finance and developing the capacity of producers and groups through business skills trainings, social mentoring and producer coaching. Intangible benefits include: (i) empowerment and mitigation of common social risks through by promoting socio-economic, gender and youth inclusiveness; (ii) improved nutrition due to access to more diversified and nutritious foods, higher income; (iii) environmental sustainability, through the use of water efficient drip-irrigation and soil management practices under as part of GAP.

USD 000	GoS	%	IFAD Loan	%	IFAD GRANT FFR	%	Climate financier Grant	%	Beneficiaries	%	Enterprises	%	Total	%
1. Inclusive Cluster Development	758	12.1	5,356	85.5	84	1.3	-	-	32	0.5	32	0.5	6,261	16.2
2. Expanding Supply of Rural Financial Services	66	0.3	2,498	10.4	219	0.9	-	-	13,800	57.5	7,431	30.9	24,013	62.3
3. Climate informed decision making and investment	-	-	-	-	-	-	5,069	100.0	-	-	-	-	5,069	13.1
4. Programme Management and Knowledge Management														
4.1 Programme Management Unit	2,119	75.6	685	24.4	-	-	-	-	-	-	-	-	2,803	7.3
4.2. Knowledge Management and M&E	-	-	413	100.0	-	-	-	-	-	-	-	-	413	1.1
Total PROJECT COSTS	2,944	7.6	8,951	23.2	302	0.8	5,069	13.1	13,831	35.9	7,462	19.4	38,559	100.0

Logical Framework

Results Hierarchy	Indicators[6]						Means of Verification			Assumptions
	Name	Base-line	YR1	Mid-Term	End Target		Source	Frequency	Responsibility	
Outreach	1. Number of people receiving services promoted or supported by the project. (60% youth = 11,100 people / 50% women = 9,250 women)	0	900	7,000	18,500		Project reports	Annual	PMU	Assumes continued social, political and economic stability in the country and Southern African Customer Union region.
Goal: Improvement in prosperity and resilience of poor and vulnerable Swazi smallholders and micro-entrepreneurs	2. Number of individual entrepreneurs and MSMEs directly benefitting from a full range of FINCLUDE support (*"full beneficiaries")* whose profits increase (real net income) from farm or non-farm enterprise by >50% (Unit = No. of individuals / MSMEs) (New Core Indicator (CI)[7])	0	0	2,500	8,500		Base/Mid/ End Survey Annual Cluster Tracking Surveys[8] (ACTS)	Baseline Mid term End line Annual	PMU	
	3. Number of additional individual entrepreneurs and MSMEs who take and duly repay loans under the FIRM without receiving other FINCLUDE support (*"finance only"* beneficiaries)	0	200	1,700	10,000		FIRM reports / Credit History Database	Annual	CBS PMU	
	4. Individual farm entrepreneurs and MSME "full" beneficiaries report a >50% increase in resilience score[9]	0	-	-	5,600		Base/Mid/ End line Survey	Baseline Mid term End line	PMU	
Development Objective: To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through resilient links to markets and access to appropriate financial services	5. Number of beneficiaries' achieving annual return on labour in farm or non-farm enterprises of >120% of unskilled wage rate (Unit = No. of individuals)	0	0	2,000	6,800		Base/Mid/ End line Survey ACTS	Baseline Mid term End line Annual	PMU	Assumes 80% of 'full' beneficiaries achieve this level of income. At design, unskilled wage rates are E60/day (annualized x 250 days = E15000) => target min. net income ~E18000 p.a. per worker

[6] Data for all household/individual related indicators to be disaggregated by poverty status, age (<25 yrs, 25-35 yrs, >35 yrs) and gender.
[7] Disaggregated between individuals (farm, non-farm) and MSMEs.
[8] Annual Cluster Tracking Survey will combine data from: individual MSME data collected via tablet-based MIS by the business skill / social mentors at least for all 'full' beneficiaries; trader and service provider tracking survey in each cluster; secondary data (e.g. agricultural output data). Annual Cluster Tracking Survey will replace the annual outcome survey (see details in PIM).
[9] Resilience, defined as resilience to climate and economic shocks, measured through a scorecard based on FAO's Resilience Index and Measurement Analysis (RIMA) methodology. Target assumes 80% of 7,000 *farm* 'full' beneficiaries. Subject to securing funding for full implementation of Component 3.

Results Hierarchy	Indicators[6]					Means of Verification			Assumptions
	Name	Base-line	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Outcome 1: Profits to farm and non-farm micro enterprises and MSMEs from inclusive clusters increased for multiple higher value products.	6. Aggregate value of priority products[10] and services sold by farm/non-farm micro-enterprises in target clusters in real terms[11] (Unit = Percentage increase)	0	0	10%	40%	ACTS	Annual	PMU	Baseline sales data in each commodity cluster to be gathered during start-up of cluster activities. Assumes that there are no prolonged collapses in export/local demand or prices for agricultural products.
	7. Adoption rate of environmentally sustainable and climate resilient production and postharvest technologies[12] for crops by participating farmers (Unit = %) (New CI 1.2.2)	0	0	40%	80%	Base/Mid/ End line Survey ACTS	Base/Mid/ End line; Annual	PMU	Substantial improvements in climate resilient production are necessary and feasible as foundations of growth.
Outcome 2: Private investment increased in priority clusters and commodity sectors from smallholders and MSMEs	8. Total private investment in priority clusters and commodity sectors by individuals, households & MSMEs[13] secured under the FIRM[14]. (Unit = cumulative USD)	0	0	USD8 million	USD25 million	FIRM reports Credit history database FI Loan data	Annual	CBS PMU Partner FIs	Sufficient numbers of FIs continue to show commercial commitment to expand rural lending portfolio to smallholder and MSME sectors.

[10] Initially five priority products will be supported: chicken, red meat, pigs, vegetables and legume seeds. Additional products may be added during project implementation.
[11] calculation of "real terms" to include correction for changes in wider reference market prices for the specific products so that gain/loss from general market price variations are discounted.
[12] "Adoption Rate" in the production/post-harvest practices to be defined for each target product by the M&E team with technology experts at the start of the project. At the farm level, this is typically expected to include farmers adopting at least 2/3 of the components of an improved technology package for production a specific crop/livestock. Each of the technology components will be clearly defined and objectively verifiable, similar to good practices in other IFAD projects elsewhere.
[13] Disaggregated by commodity and between households and MSME. For households also disaggregated by age (youth/non-youth) and gender.
[14] To include follow-on loans and investments where the initial investment was secured under the FIRM but foll-ow-on loans were provided directly by the FSP without the need to the FIRM guarantee.

Results Hierarchy	Indicators[6]					Means of Verification			Assumptions
	Name	Base-line	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
	9. Savings accounts opened in banks and other financial institutions (including SCGs) for investment purpose in priority cluster and commodity sectors by individuals benefiting from FINCLUDE services, among which 1/5 belongs to a migrant household[15]	0	n/a	2,000	6,800	ACTS Partner FI reports	Annual	PMU Partner FIs	Sufficient numbers of FIs continue to show commercial commitment to expand rural savings portfolio.
	10. Participating individuals with increased business skills levels (Unit = people)	0	0	2,000	6.800	Pre-/post BS training assessment	Annual	PMU	80% of 'full' beneficiaries. Participating smallholders have sufficient interest to improve their business skills.
	11. Continued increased financing by Financial Institutions (FIs) to small farmers and rural MSME after project (Unit = Value of loans)	0	n/a	n/a	USD5 million p.a.	CFI industry tracking reports	End of project / Post-project	CFI under its core mandate	Positive framework conditions for investment into agriculture and rural MSMEs.
Outcome 3: Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives	12. Multi-stakeholder Cluster Meeting (MCM) established, functional and self-sustaining[16] (Unit = percentage) (New Core Indicator - policy 2)	0	0	90%	90%	Project reports; MCM surveys	Annual Annual	PMU PMU	External socio-political factors do not disrupt MCM processes. Sufficient interest from Private sector in MCMs in all commodities.
	13. Percentage of clusters in which participants (producers /MSMEs) accessed unsubsidized technical services from commercial suppliers in last 12 months. (Unit = % of clusters)	0	20%	60%	100%	ACTS	Annual	PMU	Development of commercial services and support markets is not undermined by the provision of free or heavily subsidized services by others.

[15] This number is based on the proportion of households to whom remittances represent a source of income estimated as of 22% of the population according to Finscope survey 2014. This estimate can be refined after the completion of the demand side survey on remittances and migrant households.
[16] 'functional' MCMs by end of the project are defined as those being self-managed and organized by the members of the cluster without external financial support.

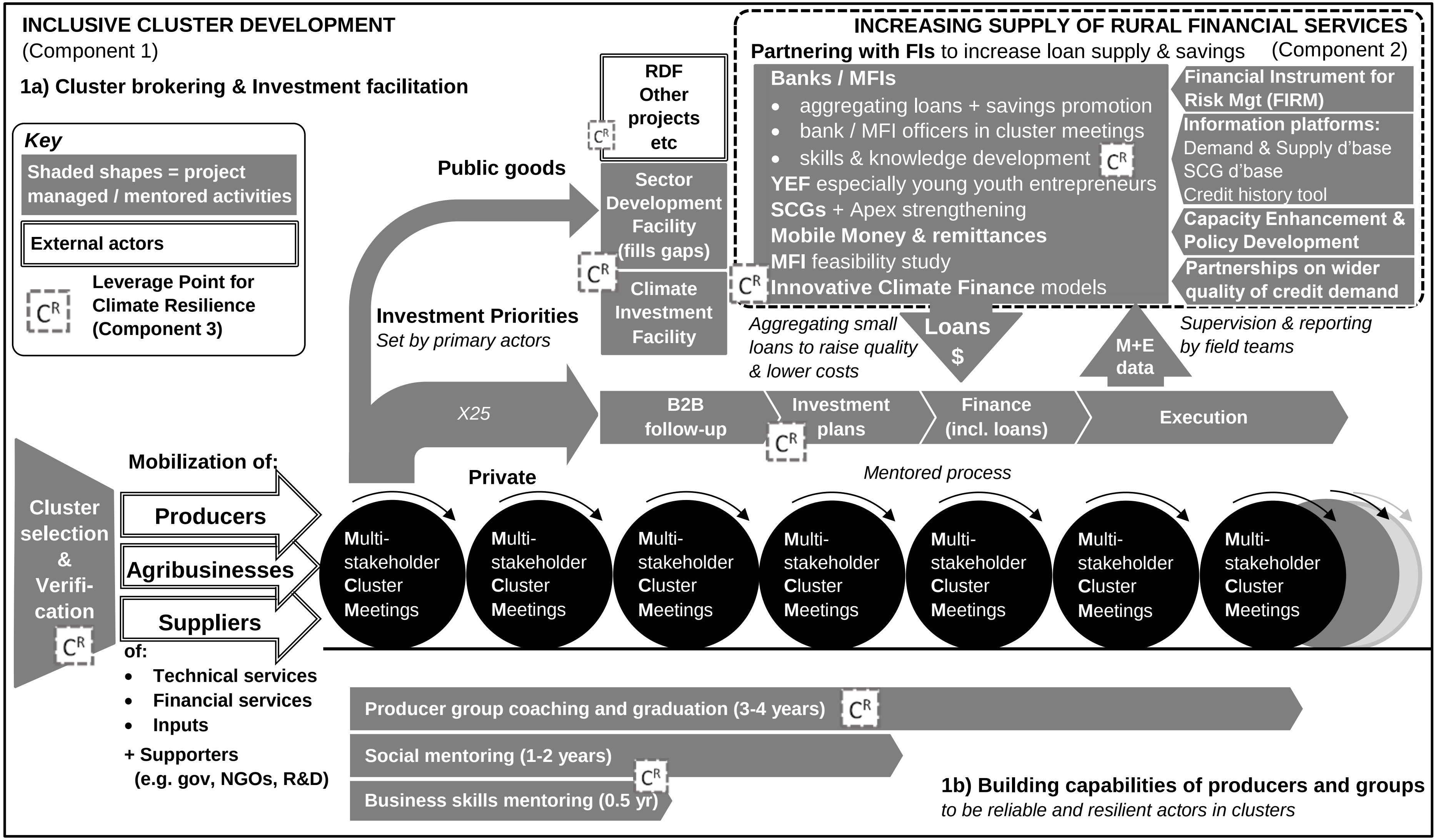
Results Hierarchy	Indicators[6]					Means of Verification			Assumptions
	Name	**Base-line**	**YR1**	**Mid-Term**	**End Target**	**Source**	**Frequency**	**Responsibility**	
	14. Number of other development actors and government agencies applying one or more best practices[17] of FINCLUDE in their own activities. (Unit= no. of organizations)	0	1	2	4	KM products published Feedback reports from organisations replicating practices Budget / expenditure data from partners on replication activities.	Annual	PMU	Best practices must be documented in KM products by FINCLUDE. Must be substantiated by evidence of activities from adopting agencies, including evidence of change in practice from before.
	15. Knowledge management outputs rated as highly satisfactory by steering committee (SC) members (Unit = % of SC members)	0	80%	80%	80%	SC KM feedback survey	Annual	PMU	Assumes that KM products must be highly satisfactory if SC members and others are likely to be interested to replicate best practices in their own institutions.
Outcome 4: Climate resilience and climate finance mainstreamed into rural finance operations	16. Participating individuals using climate information for decision-making (unit = people [% of total outreach])	TBD	As	2,800 [40%]	14,800 [80%]	Base/Mid/ End line Survey ACTS	Base/Mid/ End-line Annual	PMU	Subject to securing financing to fully implement Component 3 – Climate Resilient Decision Making and Investment
Outputs	17. No. of individuals trained in business and financial skills	0	500	5,000	8,500	Training records	Annual	PMU	100% of full beneficiaries
	18. No. of households graduating from social mentoring intervention	0	0	2,500	6,800	Mentoring records	Annual	PMU	80% of full beneficiaries
	19. No. of producer groups mobilized to participate in clusters	0	40	175	175	ACTS	Annual	PMU	

[17] Key elements of the approach to be documented in KM products and promoted for wider adoption by other organizations are expected to include, inter alia: improved business skills and financial literacy training, multi-stakeholder cluster meetings and associated processes for inclusive cluster development; producer groups and MSME mentoring; market-based service market development; social mentoring and household methodologies; use of peer mentors for business skills, social mentoring and other skills training delivery; PICSA climate information usage by smallholders; promotion of private smallholder investment via savings and credit rather than grants.

Results Hierarchy	Indicators[6]					Means of Verification			Assumptions
	Name	Base-line	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
	20. No. of best practices in delivering positive economic and social benefits to poor young women (<24 yrs) piloted, documented and scaled-up	0	0	4 piloted	2 scaled-up	KM products ACTS	Annual	PMU	
Outputs subject to securing financing to fully implement Component 3: Climate Resilient Decision Making and Investment	Climate finance mobilized at national level for small farmers and rural MSME across the country during project period (Unit = Value of all financial products)	0	0	USD 10 million	USD 50 million	Climate Finance Tracker18	Annual	PMU	Commitment from relevant national authorities to apply for and secure additional climate financing
	No. of smallholder farmers trained in use of climate information services	0	0	3,500	7,000	Training records	Annual	PMU	All *farm* ‘full’ beneficiaries.

[18] The Climate Finance Tracker will be developed as part of the Climate Finance Strategy.

Figure 1: FINCLUDE Summary



I. Strategic context and rationale

A. Country and rural development context

1. **Political and Economic Issues.** The Kingdom of Swaziland is a small land-locked country of 17,364 square kilometres situated between South Africa and Mozambique, with a population of 1.269 million of which 79% are rural and 21% urban. Swaziland is divided into four administrative regions covering 55 Tinkhundla (districts/constituencies) and 360 chiefdoms (communities). The country defines itself as a "monarchical democracy", with parallel parliamentary and traditional systems of governance. Swaziland is ranked as a lower middle-income country with GNI per capita of USD2,830 and GDP of USD3.72 billion in 2016.[19]

2. The economy of Swaziland has stagnated over the past few years, with GDP growth declining substantively from 2.5% in 2014 to -0.9% in 2016, but with a forecast annual GDP growth of 1.9% for 2017 (ibid). This is due to several factors, including: (i) persistent droughts, which are affecting agricultural production; (ii) mining sector fragility; and (iii) weak economic growth in South Africa, the country's major trading partner and source of revenues, which are channelled through the Southern African Customs Union (SACU)[20]. Swaziland is indeed highly dependent on SACU receipts, which has accounted from 50% to 75% of the national budget in recent years.[21] Drops in SACU revenues have negatively affected civil servants' salaries and social welfare. 82% of micro, small and medium enterprises (MSMEs) are classified as micro businesses and commercial agriculture accounts for only 6% of land use. The public sector is a key driver of economic activity and the single biggest employer. The combined effects of a small private sector, large public sector and the reliance on external revenue is increasing the country's vulnerability to fiscal shocks. The small economic base also implies a small formal employment market. Thus, the need for economic diversification to reduce reliance on SACU receipts and ensure sustainable growth. Access to financial service coupled with MSMEs and inclusive rural economic development are also important drivers of growth.

3. **Poverty and Rural Development Context.** Swaziland has one of the lowest life expectancy at birth in the world – at just 57 years[22] with 80% of the population dying before the age of 40. It also has the highest prevalence of HIV/AIDS in the general population in the world. Life expectancy is still well below its peak of 59 years in 1990. Having recovered slightly in the decade since its lowest point of 46 years in 2004, it has deteriorated again in the last two years.

4. Income distribution in Swaziland is extremely unequal, with the wealthiest 10% controlling almost half of all consumption and 63% of the population living in poverty. Rural poverty varies between 71-76% with 89% of the poor living in rural areas. About half of rural dwellers are unable to meet minimum daily nutritional requirements (2009/10 data). Per capita income and food consumption are significantly lower in rural than in urban areas, with the greatest poverty concentrated in the Lowveld, an area unfavourable to agricultural productivity and subject to periodic droughts that are projected to increase as a result of climate change.

5. Poverty is also strongly linked to the high prevalence of HIV/AIDS (currently 26%) in Swaziland. Although HIV rates are declining amongst youth, the vulnerability of young women remains high (HIV prevalence among women under 25 years of age is 26% compared to 5% among their male peers).[23]

6. Almost 85% of the population is of the Swazi ethnic group[1]. Other ethnic groups include the Sotho and the Zulu; the common Bantu origin, coupled with the history of this small country together

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[19] Source: http://data.worldbank.org/country/swaziland.
[20] SACU comprising Botswana, Lesotho, Namibia, South Africa and Swaziland applies a common set of tariffs and disproportionately distributes the revenues among its members states to the particular advantage of smaller countries.
[21] Freedom House, 2013: Swaziland: A failed feudal state.
[22] World Bank, databank.worldbank.org
[23] 2005-2010.

with its strong Monarchy and set of entrenched cultural traditions, largely bind all Swazis in a common Swazi identity in which the notion of ethnic group loses relevance.

7. Looking forward to the Sustainable Development Goals (SDGs), FINCLUDE will directly contribute to efforts to achieve the key SDGs of ending poverty and hunger as well as contributing to several additional goals. The SDGs and targets FINCLUDE will contribute to include:

(a) Goal 1: End poverty in all its forms everywhere.

(b) Goal 2: Zero Hunger - End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

(c) Goal 8: Decent Work and Economic Growth - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

(d) Goal 13: Climate Change - Take urgent action to combat climate change and its impacts.

(e) Goal 10: Reduced Inequalities - Reduce income inequality within and among countries.

(f) Goal 5: Gender Equality - Achieve gender equality and empower all women and girls.

8. Swaziland has one of the youngest populations in the world, with a total of 79% under the age of 35. With 40% being less than 15 years old, a large part of the population will become work-eligible in the coming years.[24] Women are instrumental in demographic and economic development as 45.6% of households are female-headed. In 2010, approximately 30% of households under the poverty line were headed by women highlighting the relative – and not absolute – vulnerability of women headed households (WHH), i.e., being a woman headed household does not necessarily mean being poor. Yet, there are indications that poor households headed by women tend to be worse-off than male-headed households under the poverty threshold[25]. These WHHs face specific constraints that male headed households do not face in terms of the agriculture production gap. In addition, HIV and AIDS have left an army of orphans that other households have had to absorb - including WHHs. It was repeatedly reported in community focus group discussions during the design mission that poor households are characterised by being headed by a woman who is responsible for many children, some of her own, others being grandchildren or from the extended family or neighbours. But even non-poor WHH bear this extra burden. When a WHH that is vulnerable to poverty or poor is hit by an external or internal shock (from the external context or something changing in the context of the household structure or wellbeing, respectively), there is a greater probability of depleting assets quicker and adopting negative coping strategies such as transactional sex. Consequently, it is more difficult for these households to recover. Accordingly, FINCLUDE will have a particular focus on supported women headed households and young women to make successful productive investment and begin to build their own resilience.

9. The prevailing framework conditions have thus far not allowed Swaziland to reap potential dividends as both, women and youth remain particularly vulnerable to poverty. In rural areas, this is attributable to their limited access to land, weak tenure security and limited employment opportunities in the non-farm economy. The lack of access to male labour among women-headed households contributes to the gender gap in agricultural productivity.[26] Women-headed households are also known to face marketing gaps due to limited access to transport[27]. As another consequence of these demographic and poverty trends, the number of migrants abroad has increased from 35,000 in 1990 to more than 91,000 in 2017 - now representing 21% of the active population, with a proportion of

[24] Ministry of Sports, Culture and Youth Affairs, 2015: Swaziland State of the Youth Report.
[25] Central Statistical Office, Feb 2011. Poverty in a Decade of Slow Economic Growth: Swaziland in the 2000´s.
[26] UNWOMEN, UNDP, UNEP & WB, 2015. The Cost of Gender Gap in Agricultural Productivity in Malawi, Tanzania & Uganda.
[27] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector.

women that comes nearly equal to men. Yet for youth, migration is not the preferred option if they can find decent economic opportunities closer to home[28].

10. **Food Security and Nutrition.** Swaziland has experienced a decline in food production and increasing dependence on imports from South Africa. Like most middle-income countries, malnutrition manifests through both under nutrition and obesity. The prevalence of stunting at national level is 25.5% with an increasing rate of adult overweight 41%. The 2016 El-Niño induced drought exacerbated chronic malnutrition, micronutrient deficiencies and water scarcity.[29]

11. **Agriculture & Smallholders.** Approximately 71% of land in Swaziland is available for farming, but just over 10% is classified as arable land. Land tenure is organised in a dual land tenure system consisting of Swazi Nation Land (SNL), which constitutes about 60% of the total land area and owned by the King and allocated to households by traditional chiefs on his behalf, and Title Deed Land (TDL) which is freehold and owned mainly by companies (sugarcane, forestry and fruit plantations) as well as by some individuals (FAO). Smallholders rely almost entirely on Swazi National Land and do not have title of the land they farm. The country's agricultural sector, most of which can be characterized as rain-fed subsistence farming on communal land, employs 29% of the country's labour force and provides a livelihood for 78% of its population. Data available for 2014 indicate that 78.4% of rural households own or have access to land (as Swazi Nation Land)[30].

12. Agriculture's contribution to Gross Domestic Product (GDP) is currently estimated at around 9.93%[31] (2016). TDL contributes about 80% to the agricultural sector[32], mostly derived from large estates, while around 10% comes from SNL, with the remaining contribution from livestock and forestry. Smallholders contribute less than 5% to overall agricultural production and productivity is susceptible to unreliable rainfall and droughts. Cattle provide financial security to many rural households on SNL, and consequently, most lands are overstocked, increasing vulnerability to drought and soil degradation. High population density, the impact of HIV/AIDS pandemic on agricultural workforce and inappropriate cropping practices further aggravate negative environmental impacts. The Swaziland National Agriculture Investment Programme (SNAIP) emphasises the development of commercial agriculture on communal land (including the development for sugar cane, red meat, horticulture and a diverse range of niche products) and pursues the development of commodity markets for smallholder products and the sustainable use of natural resources, especially water for agriculture.

13. FINCLUDE is highly aligned to the intended Outcomes of SNAIP Programme 2 which *"aims to improve marketing and processing infrastructure, improve access to market information and link farmers to markets*", promoting farmers access to finance and improving sanitary and phytosanitary standards in value chains. The SNAIP programme will target specific value chains and develop strategies for capitalising production and marketing initiatives. The SNAIP Programme also includes measures to strengthen commercial arrangements including contract enforcement, transparency and ease of doing business. To date, major external funding to SNAIP has been via the EUR13.8 million EU financed High Value Crop and Horticulture Project (HVCHP) with NAMBoard and SWADE.

14. **Institutional and policy context.** A number of recent policies reflect an increasingly progressive policy framework for inclusive rural economic growth. These include key elements of the Swaziland National Agricultural Investment Plan (SNAIP), including its prioritization of market-driven smallholder agricultural development; the draft national extensions policy, with its emphasis on pluralistic services; the newly approved policy on financial inclusion, led by CFI, and; the evolving policy framework on climate adaptation. Despite an increasingly favourable policy context, institutional changes have not yet kept pace. FINCLUDE provides an opportunity to bring several key elements of

[28] Observation from several youth focus group discussions held during the design mission.
[29] The National Rapid Assessment Report on Nutrition (2016).
[30] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[31] http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=SZ.
[32] FAO/WFP (2015) Crop and food security assessment, special report.

these policies to implementation. In the context of FINCLUDE, key institutions are the: Ministry of Tinkhundla Administration and Development, especially the Community Development division, which is a major interface of the government in local development; Ministry of Agriculture which has recently established an agribusiness unit and developed a new pluralistic extension policy; Ministry of Tourism and Environment; Central Bank of Swaziland, and; farmers unions - principally Swaziland National Agricultural Union (SNAU) and Swaziland Farmers Cooperatives Union (SWAFCU). Critical institutional issues are limited experience in implementing sustainable and inclusive rural economic development, difficulties in coordination and limited financial resources. FINCLUDE provides the opportunities to address all three of these current constraints, not least by including many of these key institutions as partners in the project implementation to strengthen the capacities of their teams, provide resources and foster deep rooted coordination and common ways of working. Further analysis of the institution context of the financial services sector is detailed in the Appendix.

15. **Climate Change.** With mean annual temperatures steadily increasing (between 0.1-0.2 °C per decade), drought periods becoming longer and rainfall events becoming more extreme, climate change is an everyday reality in Swaziland. The impact of climate change on Swaziland's agricultural sector and therefore rural population is complex, as some crop yields are expected to increase as a result of increasing mean temperatures, but changing and unpredictable rainfall may have a larger negative impact on yields. Higher mean temperatures furthermore increase crop water requirements, increase risks of the occurrence of certain pests and diseases, and can cause heat stress for livestock. Swaziland's key strategic documents confirm the sensitivity of the agricultural sector to climate change, and highlight the correlation between recent declines in agricultural outputs and increasingly frequent dry spells[33]. The National Development Strategy recommends to promote a market-oriented, diversified agricultural sector and to reduce the level of risks associated with farming. Swaziland's INDC (2015) sees a strong need for adaptation in the agricultural sector as the foundation for Swaziland's population. Some adaptive measures are already identified and available in the market, but producers and traders are often not making the adequate investments due to lack of access to finance as well as a lack of awareness of the adaptation options available and their costs and benefits. Climate change and variability are among key sources of (perceived or real) risk in investment proposals, but banks do not have the adequate knowledge or tools to properly assess the risk and propose ways to minimize this.

16. **Rural finance and financial services:** Access to credit for the rural smallholders and MSMEs is a serious impediment in the efforts for creating sustainable employment, improving food security, and reducing rural poverty. Although at a national level the financial sector is dynamic and captures more than 70% of the active population in Swaziland, banks exhibit limited appetite to lend outside the sugar cane sector, as they perceive rural MSMEs and smallholders a high risk and high cost undertaking. Consequently, almost 30% of the adult population remains unserved by either formal or informal financial services, largely in rural areas[34].

17. The banking sector is liquid and well capitalized (CAR over 20%)[35]. Additionally, a wide range of institutions, either formal or informal cater the needs of the client base (mainly urban). Yet money is lingering in deposit accounts and is being used mainly for commercial transactions[36]. Despite this, access to quality credit is restricted and usually unavailable to rural MSMEs.

18. On the supply side, the regulatory environment safeguards financial institutions, through prudential requirements. However, on the demand side, it does not create a sense of security to the

[33] Swaziland 3rd National Communication to the UNFCCC.

[34] The FinScope Swaziland (2014) established that rural residents are twice likely to be financially excluded as compared to their urban counterparts.

[35] Historically, bank capital adequacy ratio in Swaziland reached an all-time high of 33.8 % in 2008 and an all-time low of 17.3 % in 2005. When compared to its peers, Swaziland's CAR is higher. In Botswana it was 20.1 %, 15.2 % in Lesotho and 14.2 % in South Africa in 2015.

[36] 44% of adults have a bank account across all segments of the population. However, evidence suggests that a high proportion of these bank accounts are dormant or transactional (monthly deposit/withdrawal of salary).

customers due to a lack of adequate protective or grievance measures for customers. Furthermore on the demand side, training on financial literacy and business skills is uneven (every Capacity Development Provider has different standards), leaving the rural communities frustrated when their loan applications are consistently rejected by the banks and the banks consistently complain of receiving immature proposals from financially inept rural entrepreneurs. This pattern has resulted in fatigue and mistrust between the demand and supply for rural credit.

19. Financing has been a challenge for most interventions targeting rural MSMEs in Swaziland. In most cases project designers had to revert to grants to overcome this hurdle. Although most of the population transacts with financial institutions, when it comes to accessing finance for rural micro-investments or income generating activities, there are very few options available to the smallholders. In fact, the banks (although liquid and profitable) and the DFI are unwilling to extend loans smaller than SZL300,000 given high transaction costs of risk assessment. Furthermore, there is only one MFI operating nationally at chiefdom level, which makes it impossible to cover relevant demand. SCGs are large in number but cater mainly for consumption, health and education needs. Banks expressed interest in investing in agriculture and agribusiness, but assert they don't have information on the relevant demand and particularly they have not developed a mechanism through which to channel creditworthy proposals and rural entrepreneurs with business acumen to their credit officers. Banks also complained about the heterogeneity of business proposals, in fields in which banks have no prior experience. As a result, banks consider most rural investments (apart from these relating to sugarcane) as bearing high risk and therefore either decline them, or charge high interest rates and request for collateral that cannot be provided by applicants especially for investments on Swazi National Land[37]. The GoS initiated a number of efforts to support MSMEs, the poorer segments and youth with financing schemes, most of which were not successful, and therefore GoS is now trying to streamline their operation. In this financial ecosystem the CFI has become an interlocutor valued by all parties involved and can therefore become the broker bridging demand and supply of credit and more coordinated support to the development of the sector.

20. While globally, climate finance is taking off rapidly, smallholder producers at their local level are in most cases not yet connected to financial products that help them to better respond to and manage climate risks. In Swaziland particularly, climate finance is still in its infancy.

21. FINCLUDE will be aligned with the Financial Inclusion Strategy that's goal is to "*Increase the depth of Financial Inclusion, growing the percent of adults with access to two or more formal products from 43% to 75%, and reducing the excluded from 27% to 15%, by 2022 by growing mobile money and remittances, deepening bank reach, getting credit basics right, ensuring risk management products are available, and enabling alternative channels to serve the poor"*.

22. **Business environment** is challenging. Swaziland ranks poorly in the 2017 World Bank "Doing Business" – 118 out of 186 countries - on a par with Lesotho and Namibia but substantially lower than leading SACU members – Botswana and South Africa. In the region, only non-SACU Mozambique has a lower rank.

B. Rationale

23. There is an urgent need to provide new opportunities on a massive scale for young rural Swazi's to build a better life for themselves and their families. Agriculture is one of the few sectors that has the scale to provide such rural opportunities if Swazi smallholder agriculture can be transformed. A more dynamic smallholder agriculture sector would boost rural economies and create additional non-farm opportunities through the increased consumption and spending in communities that would result, for example, in new demand for services in transportation, catering, hair and beauty, clothes, phones or home improvements.

[37] On which they don't have property rights.

24. Yet, beyond sugarcane, most Swazi rural families struggle to make ends meet from low productivity traditional farming while often living near successful and profitable commercial farms, clearly demonstrating the market opportunity and production potential of the country's agriculture sector using modern production systems and business models.

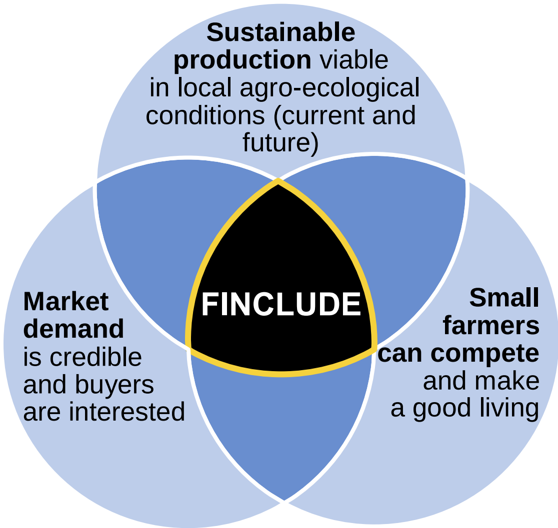


Figure 2: FINCLUDE's nexus of opportunity

25. Closer examination confirms that there are indeed numerous credible and current agricultural market opportunities in which Swazi smallholder farmers could compete and make a good living (e.g. red meat for domestic and export markets, off-season and labour-intensive vegetables for domestic and export markets, indigenous poultry for domestic and regional markets). This is helped by the diversity of agro-ecological conditions and the good connections to major regional markets as well as favourable trading terms with premium export markets, such as the EU. This nexus creates the opportunities for specific commodities and smallholder-based clusters which FINCLUDE must target (Figure 2). Furthermore, the trade regime of Southern Africa Customs Union (SACU), allows for protection of local producers as "infant industry" and local national trade laws are regarded as supreme, which can help ensure local producers have a fair share of the local market.

26. The obstacles currently preventing most small farmers taking advantage of these opportunities fall into four domains:

(a) on their farms – typically with very limited market orientation and business skills, producing low value crops, using traditional production practice for crops and livestock, poor quality genetics, limited use of appropriate inputs and, increasingly, exposure to climate shocks such as changing and unreliable rainfall patterns with limited access to irrigation.

(b) in the market chains linking individual farmers products to the end customer - which are highly fragmented in the "1st kilometre" from the farm-gate (largely as a result of lack of aggregation among small farmers in the marketing of their products), are "thin" – lacking competition among buyers and, in some case, severely distorted by the presence of subsidized non-commercial state enterprises – which is likely to be holding back emergence of deeper markets by slowing the development of competing private agribusiness and traders due to unfair competition from subsidized state enterprises.

(c) in the support markets which are an essential element of any competitive agricultural sector – especially for technical, business and financial services. Demand for such services has been suppressed by past development initiatives that have adopted strategies including generous subsidies and the provision of free services, even for aspiring market-driven small farmers. However, for farmer that are profitable with good market demand, the costs of such technical and financial services should be a normal operating cost of farming as a business and an affordable part of the farm operation. Similarly, on the supply side, technical and business services to farmers has been dominated by state and non-commercial development actors. While this can be relevant in the context of non-market oriented agriculture, it may have undermined the development of sustainably competitive modern smallholder agriculture as the public sector can rarely keep up with the demands and services required by farmers. Yet at the same time the development of private providers is undermined by the state provision, even though it is inadequate to meet farmer demands.

(d) in accessing finance. The aggregate scale of investment required in profitable farming and downstream businesses means that private investment must play a major role in delivering large scale change in smallholder agriculture. This means that quality access to mainstream finance for small farmers and rural MSMEs is a vital enabler of change. Yet at present there are bottlenecks in both the demand and supply of rural finance, which must be addressed. Investments in public good are also needed, but must be supportive of the investments private actors (farmers and MSME) want to make.

27. Change must, therefore, be achieved in a coordinated way across all these domains if a sustainable and dynamic smallholder agricultural sector is to emerge beyond sugarcane. But change is a process that takes time. It is not achieved by one-off training courses or investment in standalone infrastructure, no matter how important. For small farmers in particular, the transition from subsistence to successful market-oriented farming is a gradual process that takes time, typically at least 3-5 years depending on the product. Smallholders need to be mentored through this transition, but in ways which do not create new dependencies. Similarly, relationships and trust between producers, buyers and suppliers also takes time to grow and must be deliberately nurtured.

28. Such change also requires investment – in farms and businesses but also in critical public goods in the production and market chains. The scale and nature of these investments requires a mix of private and public investment in a broadly coordinated manor.

29. FINCLUDE must therefore work in all four domains but cannot do so alone. It must adopt practical mechanisms to coordinate its resources and investments alongside other development programmes and initiatives, especially for public good investments – such as RDF, SMLP and Chiefdom Development Plans and among others. FINCLUDE must adopt a multi-pronged approach that:

(a) builds trust and networks among primary actors (farmers, buyers, suppliers) and facilitates them to develop their own priorities for their local market development;

(b) enables other stakeholders and support programmes and actors to identify and respond to the priorities raised by the primary actors, especially for investment in public goods;

(c) mentors individuals and producer groups to successfully transition to farming as a business, equipping them with the skills and confidence to make successful farm investments and access the necessary suppliers and services to make their investments as success;

(d) specifically addresses the supply-side constraints on rural finance.

30. While the scale and complexity of the challenge in enabling Swazi smallholder farmers to transform themselves into successful market players should not be trivialized, it is eminently possible – as demonstrated over and over again – by small farmers from Kenya to the mountains of Nepal (see Lessons Learned).

31. The ambitious goal of the project requires that it addresses economic aspects and institutional aspects as well as specific social aspects to secure the greatest overall benefits.

32. As outlined above, the entry point must be to accelerate economic growth in the community, principally through the development of competitive inclusive clusters for specific agricultural products. FINCLUDE can draw on the growing body of successful experience in practical techniques for facilitating the growth of such clusters, including mentoring of individuals and household farmers and producer groups. In addition, to broaden economic opportunities in the village, the project should also support a smaller number of eligible individuals to develop non-farm micro-enterprises, either through investment in their own micro-enterprises (e.g. tailoring, salon) or acquiring trade or technical skills to earn better income through paid work (e.g. as plumbers, electricians).

33. Yet economic growth by itself is necessary but not sufficient to deliver resilient socio-economic change. Recent experience in Swaziland's sugar industry has highlighted the risks of unintended negative consequences within households and local communities from shifting internal dynamics, triggered by rapid improvements in incomes, which can undermine the benefits of hard-earned economic growth. To mitigate these risks, the project must integrate targeted social mentoring processes in its supported communities. This will use proven techniques to support all households to take full advantage of the economic opportunities they have earned and avoid potentially damaging consequences, with more intensive mentoring offered to those households at highest risk.

34. Climate change is an integrated part of resilient socio-economic change in FINCLUDE and responds to the INDC's call for better access to financial services. Under FINCLUDE, the starting point is that a thriving and diversified local economy is a key enabler to improve the resilience of rural people to climate change. Using finance as an entry point, the project aims to identify concrete opportunities to improve climate resilience, whether through a change in production technology at individual level or through public investments. Moreover, FINCLUDE's approach is to make sure climate finance is accessible to end-users in the long run, aligning with the overall project logic and without disturbing the financial system with perverse incentives.

35. If successful, FINCLUDE's facilitation of competitive inclusive cluster development in agriculture will serve as a template for other economic sectors. Furthermore, the strengthening of financial inclusion and the supply of rural finance will further enable replication to other sectors. There are also opportunities for FINCLUDE to work with other major donors in agriculture, especially the EU, to pilot approaches that harness greater financial inclusion and better supply of rural finance to reduce the use of expensive grants to small farmers to invest in farming as a business (currently, typically 70% of investment costs for on farm investments). Such a shift would free-up scarce public resources to invest in other priorities and would also enable investment in farmers to happen on a far larger scale - not limited to the small enclaves of development that public budgets can reach.

36. FINCLUDE is well-timed to build upon the activities and lessons learned during the RFEDP to address the challenges facing rural household and enterprise development. Without the success of RFEDP in establishing the very capable CFI, FINCLUDE would not be possible. FINCLUDE will also benefit from a close working relationship with SMLP as part of IFAD's programmatic country approach, including developing a common approach to inclusive cluster development and potentially extending improved access to rural finance to SMLP supported agricultural clusters and farmers. The project will also benefit from IFAD's widely recognized contributions to the GoS development agenda, and its substantial network within key ministries, development institutions, and the finance/business community. FINCLUDE leverages IFAD's unique comparative advantage in Swaziland of being one of the major donors active across the domains of agriculture and rural development, rural finance and climate adaptation. Furthermore, FINCLUDE is aligned with national strategies and policies, in particular in the areas of agricultural development (SNAIP Programme 2 - "Improved Access to Markets and Value Chains"), financial inclusion, climate adaptation and agricultural extension and aligned with the IFAD Country Strategy Note Strategic Objective No. 2 on Financial inclusion and sustainable value chains creating increased income opportunities for young entrepreneurs and market-oriented smallholder farmers.

II. Project description

A. Project area and target group

37. **Target group.** FINCLUDE will target ***"aspiring resource-constrained entrepreneurs",*** that is, actual or aspiring smallholders and micro-entrepreneurs for selected commodities or taking advantage of emerging opportunities in cluster areas, who require short-term support. Special focus will be placed on i) young men and young women (18-35) engaged or motivated and willing to engage in farm and non-farm enterprises in the selected clusters locations; ii) poor rural women and particularly

women headed households active along the targeted supply chains and aspiring and seeking business growth.

38. For ‘finance only’ beneficiaries, targeting will be consistent with the above but will follow the targeting strategies of the partner organizations and projects who will be mobilizing their supported beneficiaries into the additional ‘finance only’ support from FINCLUDE (see paras 63 and 193).

39. **Commodities:** the project will focus on livestock and crops and initially concentrate on five commodities: red meat (beef/goat), poultry, pigs, vegetables (conventional/baby) and legume seeds. Additional commodities and cluster may be developed in the future subject to demonstrated project capacity and available resources. In addition to their strong market orientation, the commodities selected are those in which poor households and women are more present and also that youth (men and women) could easily integrate including through affordable investment pathways – based on affordable initial investments and opportunities for reinvestment of profits to deliver further growth.

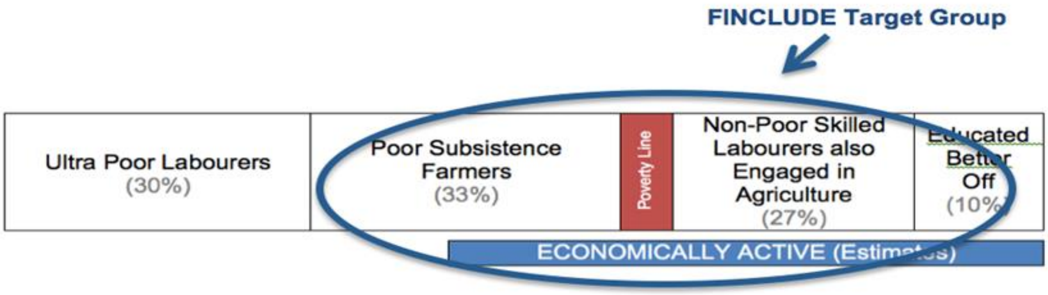


Figure 3: FINCLUDE's socio-economic target group

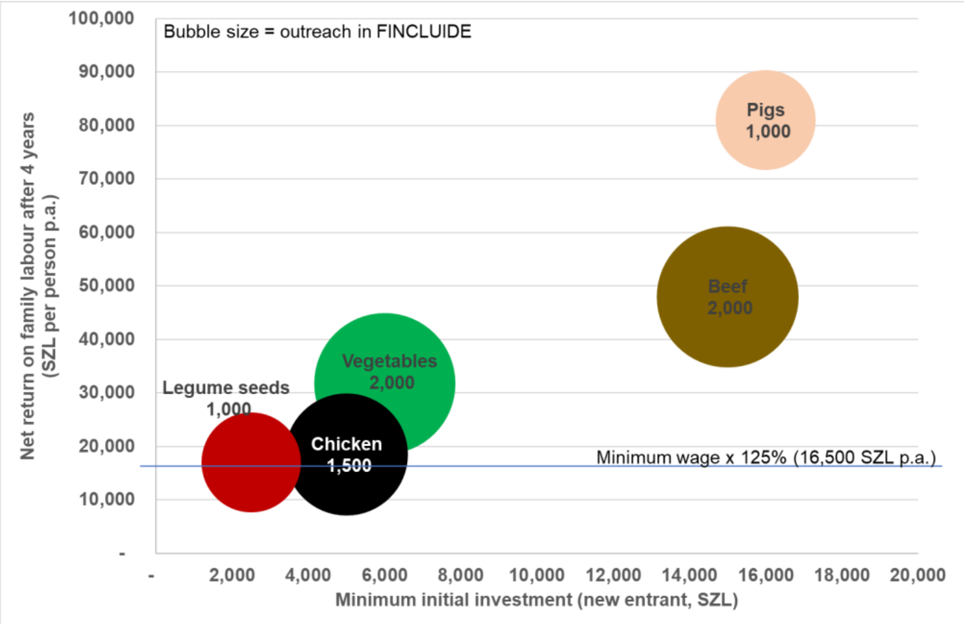
40. Analalysis of the likely inclusiveness of the five comodities was completed using the size of the affordable minimum feasible investment for new entrants as a proxy. This was compared with the achievable annual net income that would be achieved within four years of reinvestment from this initial minimum investment and financed through the increased income from this initial investments (see Figure 4 and Table 1). All of the commodities can be seen to have a viable affordable investment pathway to get to the target income level for the project, thought with differeing levels of minimum investment. Larger livesotck give the highest returns within 4 years but require larger initial investments. Thus, for example, initial investments in vegetables or chicken, could be a stepping stone to later, more profitable diversification in to pigs or cattle. It is noted that the average initial investment for FINCLUDE beneficiaries may bne higher than that shown below, especially for existing farmers that already have some income and some stock/assets. The analysis below is specifically concerned to test the inclusiveness of each commodity for new entrants, more typical of younger youth.

Table 1: Inclusiveness and affordable minimum investment pathways for commodities

Commodity	Minimum feasible initial investment (new entrants)	Net return on family labour after 4 years' reinvestment	Outreach in FINCLUDE	Scale	
	SZL	SZL	Farmers	Minimum initial investment	After 4 years of reinvestment
Pigs	16,000	81,000	1,000	2 breeding sows, small self-constructed shed and pen with local materials	6 breeding sows, improved pens and facilities
Beef	15,000	48,000	2,000	2 calves to fatten, small self-constructed shed and pen with local materials	8 cattle per cycles, 3 cycles per year, improved shed and pen, part local formulated feed
Vegetables	6,000	31,800	2,000	500m2 initial plot with drip	2500m2 under drip, etc.
Chicken	5,000	18,500	1,500	10 laying hens, small shed and pen	60 laying hens plus facilities
Legume seeds*	2,500	17,000	1,000	0.5 ha of beans as part of bigger seed group	2 ha seed production

*Data are estimates and need to be reconfirmed

Figure 4: Inclusiveness and affordable minimum investment pathways for commodities



41. **FINCLUDE Targeting strategy** is based on a two-pronged approach that targets farm and non-farm enterprises supplemented by social inclusion strategies integrated within the approach, for further inclusiveness, to specifically meet the needs and aspirations of women headed households as well as those of youth in their diversity and heterogeneity. The segmentation of youth group based on age and gender will allow FINCLUDE to better respond to the differentiated livelihood pathways and constraints faced by young men and women at different ages and in different stages of their life. The aspirations and challenges that face young youth (18-24) are more prone to change and are totally different compared to those of marrieds/settled youth, generally aged 25-35. See attached Matrix/Appendix 2 showing the differentiated approach of FINCLUDE interventions to get individuals and based on the segmentation of the target group split by young youth vs older X farm and non-farm opportunities.

42. On the other hand, the focus-group discussions organized with young female youth (age 15-24) confirmed that this group deserves special attention because of the double barriers they face, as women and as youth. They encounter social and cultural constraints, live in precarious conditions with high levels of vulnerability. In response, FINCLUDE will develop and apply an inclusive gender strategy for empowering and enabling particularly young female youth and women headed households to access to opportunities offered by the project.

43. FINCLUDE beneficiaries will participate in project activities based on self-selection within project supported cluster areas based on pre-established eligibility criteria. While the project will adopt an inclusive targeting approach, married and unmarried youth[38] (people aged 18-35) and women headed households will be actively encouraged to take advantage of project opportunities. The project will include a set of empowering, enabling and procedural measures to promote socio-economic, gender and youth inclusiveness and identify and help mitigate common social risks. The project will actively encourage parents to facilitate the process of youth to participate in FINCLUDE. As such, it is likely that more than one individual within a household be targeted.

44. FINCLUDE will engage with individuals or households around farm and non-farm micro-enterprises. Targeting (and tracking data) therefore needs to be at this micro-enterprise level (i.e. individuals) as well as the more common household level. In practice for FINCLUDE, there may be

[38] This is the Swazi official definition of youth that FINCLUDE will also adopt.

more than one micro-enterprise in each household facilitated by the project – a young woman may start a chicken hatching enterprise while her brother starts a barber shop or parents engage in other productive agricultural crops.

45. Commodity and cluster selection, within the nationwide scope of the project, is a critical element of the FINCLUDE targeting strategy. The prioritised commodities to be initially supported by the project have been carefully screened during design to ensure they meet the FINCLUDE selection criteria (paragraph 69 below). Critical in this assessment is to establish that there are viable and affordable investment pathways for each commodity that are accessible to the target group, even if it may take 3-4 years of gradual growth and reinvestment to expand and achieve the desired level of income (currently targeted as SWZ16,000 per worker).

46. A portfolio of commodities has been selected to provide opportunities in different agro-ecological zones (AEZ) both under current and future climate, and individuals with different productive resources and interests. At the project level, the portfolio of commodities and clusters enable FINCLUDE to build on the comparative advantages of Swaziland's diverse agroecology.

47. In addition, a gender and youth analysis of commodities has been conducted at design to ensure that a gender-balanced and youth sensitive approach of commodities for which there is appetite in the market is promoted by the project (See Table 12 and Table 13 – Appendix 2). It is expected that sufficient opportunities will be available for female and male adults and youth to participate in line with rates established for the project.

48. **Inspiring youth** to choose modern farming and non-farm enterprise as a career is vital to the development of their communities as well as for FINCLUDE delivering its development objectives. FINCLUDE must therefore apply a multi-pronged non-traditional approach to respond to the differentiated livelihood pathways and constraints faced by young men and women of different ages and at different stages of life (youth in the process of defining their livelihood options which are more prone to change – aged 18-24, as well as married/settled youth, generally aged 25-35).

49. In doing so, FINCLUDE should collaborate with other organizations with a strong track record in this area, for example Junior Achievement Swaziland[39] with whom CFI has previously collaborated. This approach will need to be continuously monitored and refined to address gaps and weaknesses and continuously improve its effective. Likely initial measures will include:

(a) deliver a well-designed youth-centred communication strategy, using channels and techniques specifically intended to appeal to youth, to highlight real opportunities and prospects of farm and non-farm enterprise in rural areas as well as the support the young entrepreneurs can call on – from FINCLUDE and others. Communication towards youth and partners will be will a key component in FINCLUDE approach at the project start up and implementation stages. Innovative mechanism and tools based on ITC in line with youth aspirations will be applied. The campaign must fine tune messages and delivery to young women and young men differently as they have differing concerns and aspirations, with a recognition of the importance of credible role models and the need to foster ambition (See Appendix 2). For young women especially, communication strategies should also include a focus on girls in their final years of school as well as recent school leavers;

(b) document real-life case studies of successful rural youth role models, highlighting both the financial and social benefits earned and promote these widely via the above communication strategy;

(c) land access and tenure arrangements for youth will be sought at the start of project activities at chiefdom and community level (in groups);

[39] www.jaswaziland.org/

(d) develop programmes and mechanisms to raise the perceived status of farming and rural entrepreneurs – for example via local, regional and national young entrepreneur competitions and awards schemes – and use these successful youth as ‘ambassadors’ to promote such opportunities to others in their community and elsewhere;

(e) have a balanced focused on farm and non-farm enterprise opportunities, with commodities chosen for the agriculture clusters to include those (e.g. chicken, pigs, vegetables) with relatively short production/cashflow cycles and not requiring access to large areas of production land that can be difficult for the young to obtain, as well as the possibility of providing farmers with support service;

(f) provide accessible pathways for interested youth to take the first steps into farming or non-farm enterprises. For example, FINCLUDE should encourage all producer groups, with the support of the traditional Chiefdom leadership, to set-up ‘local apprenticeships’ for motivated youth in their community – in which the apprentice is assigned a small area of land to farm for 1-2 years under the mentorship of one of the leading farmers with initial support also provided for inputs and materials. This could be combined with additional technical training provided by external service providers on ‘farming as a business’ to further raise their professionalism and aspirations. The well regarded Future Farmers[40] programme in South Africa is a good example of an agricultural youth apprenticeship scheme that FINCLUDE will learn from;

(g) ensure that in producer groups in the cluster, that youth within each group are facilitated to meet together to identify their particular issues and concerns and ensure these are properly represented within wider groups discussion and decision making processes at different levels;

(h) via FINCLUDE’s social mentoring processes, facilitate parents and elders to take practical steps in their own households and communities to empower and inspire their youth – for example in providing access to some productive resources even before they are married with their own family but also removing other social barriers to youth taking a more active and empowered role in the community;

(i) foster the development of peer-to-peer social networks among aspiring young farmers and entrepreneurs, to provide inspiration, support and advice but also develop a broader sense of community and identity for the cadre of aspiring young entrepreneurs;

(j) work with the partner financial institutions to develop and market test particular financial products, services and marketing channels that suit the needs, interests and particular conditions faced by the aspiring youth;

(k) assess, on an ongoing basis, opportunities for collaboration with vocational training institutes located in cluster areas with the view to aligning training opportunities and market opportunities;

(l) use of a “Youth satisfaction barometer” will be used to regularly monitor youth interest, sustained participation in project, success and promptly identify issues that could favour youth drop out, for the project to fine tune implementation strategies as needed;

(m) organize yearly specific competition events to identify and celebrate:

    (i) Youth champions (men and women) in different clusters and at national level. These champions will act as role models and a specific focus will be put on young youth women. This event could be co-organized in collaboration with Junior Achievement collaboration and built on Women Farmer Foundation experience

[40] www.futurefarmersfoundation.com/do.htm

and good practices (Woman Farmer of the Year Competition and Youth Farmer Agribusiness competition).

(ii) Most supportive leaders, for example at Chiefdom and Tinkhundla levels, for example who facilitate the access of young unmarried men and women to land and other support resources and assets. This is particularly relevant in the Swazi context given the central role of chiefdom leaders in land management and their future involvement in clusters implementation,

These will be closely integrated into the communication strategy, and have strong media coverage will be developed in partnership with TV and other media for more visibility of these events celebration and also a constructive emulation by other youth and between chiefdoms leaders.

(n) coordinate with GoS authorities on youth policy issues.

50. **Women.** FINCLUDE will target female youth, married women and women headed households. Once clusters have been identified, rapid local assessments will shed light on the specific constraints and opportunities faced by women. The use of GALS methodology (adapted in this project and referred to as Social Mentoring) will further enable groups and households to identify common areas of gender inequality limiting women´s development and wellbeing and household/community progression. The project's gender mainstreaming strategy integrates measures such as contributions towards policy dialogue based on the project´s concrete experience on the ground.

51. A comprehensive set of measures will be put in place to mobilize, apply, and select project beneficiaries to ensure transparency and accountability to local community members and project staff. A grievance mechanism will be put in place to enable community members to submit concerns with the project or any of the processes employed by it. These measures, among other things, reduce the possibility of elite capture.

52. **Geographic targeting** will be driven by FINCLUDE's cluster development approach. Clusters for specific commodities will be promoted in locations where; smallholders have a comparative advantage and are motivated to expand production; there are credible market opportunities, and; concentration of individual and households who are poor or vulnerable to poverty. FINCLUDE will have a mandate to work across the country based on opportunities for impact.

53. **Direct targeting of beneficiaries.** It is expected that 18,500 people will be targeted over the course of the project with an equal proportion of men and women. Women will be targeted as individuals or as part of households - either constituted by married couples or in women-headed households (aiming for 30% of the total pool of beneficiaries to be women headed households). Sixty percent of beneficiaries (60%) are expected to be youth (people aged 18-35) with younger youth 18-24 and older youth aged 25-35 reached in equal proportions. Migrant households and their individual members, migrant returnees and candidates to migration and remittance recipients will be targeted as a sub-set of the core target groups (especially youth and women) to make the most of remittances and balance the costs and the benefits of migration with the investment opportunities promoted by FINCLUDE.

54. Within communities in its supported clusters, FINCLUDE will target "aspiring resources-constrained entrepreneurs" through a two-pronged approach:

(a) **Farm enterprise.** This intervention will target economically active households in communities meeting suitability criteria, who are interested in improving their individual or household farm enterprise by participating in programme activities.

Groups will be mobilized over the first three years of the project as the project widens its scope of intervention across different commodities and within clusters, with an approximate scheduling as outlined in Table 2. Each group is expected to start with a limited number of project participants (approximately 15-25) and grow over time, becoming increasingly attractive and possible for more risk averse or resource constrained individuals to join over time.

Beneficiaries will largely be poor or non-poor but vulnerable to poverty. However, it is expected that some better off households and food poor households, which do not face labour constraints also participate in the project.

The suitability of targeting food poor labour constrained households in each target community will be assessed on a case-by-case basis, to confirm if any of the commodities promoted by the project match limited labour capacities and interest these households. Programme design considers the integration of a graduation approach as beyond its scope. For this reason, it is largely expected that such households be targeted by social protection mechanisms.

(b) **Non-farm enterprise.** While economic development is being stimulated in target communities by enhanced agricultural activity within cluster areas, FINCLUDE will also enable rural individuals and households in Chiefdoms in the cluster areas to access funds through credit to develop non-farm micro-enterprises that respond to local market needs to facilitate individuals and households that are not interested in agricultural to engage in other entrepreneurial activities to be defined by households themselves; this could include construction, plumbing, hairdressing, tailoring, small shops/enhanced trade activities, etc.

55. In addition, FINCLUDE will target similar 'aspiring resource constrained entrepreneurs' to be able to access collateral free loans and other financial services enabled through FINCLUDE's partnerships with financial institutions and other development projects and organizations to improve the wider quality of credit demand.

56. FINCLUDE will work with existing groups when they comply with project targeting criteria within identified cluster areas and a large majority of members will work together as a producer organisation. Being a member of an existing group is not a pre-requisite for participation in the project. In fact, it is expected that most beneficiaries will come together in groups (formal and informal) to participate in the project.

57. FINCLUDE's design recognizes the imperative need to create opportunities for rural youth, especially those living under the poverty line. Throughout its engagement, FINCLUDE will integrate strategies for social inclusion to meet the needs of poor women headed households and youth and respond to the differentiated livelihood pathways and constraints faced by young men and women in different ages and in different stages of life (youth in the process of defining their livelihood options which are more prone to change – aged 18-24, as well as married/settled youth, generally aged 25-35).

58. In all instances, FINCLUDE will seek to put in place, or partner with other players to do so, all minimal requirements for beneficiaries' successful engagement in agricultural production, value addition and agribusiness are fulfilled, including: (i) access to credit for capital investment; (ii) access to quality and timely technical assistance; (iii) provision of support for business development skills; and (iv) the promotion of linkages to functional markets with proven demand.

Table 2: Scheduling of outreach and beneficiary, group and cluster mobilization

Type of beneficiary	MSME type: Farm / Non-farm	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Total
Yearly target								
Full package	Farm	600	1600	2225	1750	825	0	7000
	Non-Farm	129	343	476	375	177	0	1500
	Sub-total	**729**	**1943**	**2701**	**2125**	**1002**	**0**	**8500**
Finance Only	Farm	157	393	786	1336	2121	3064	7857
	Non-Farm	43	107	214	364	579	836	2143
	Sub-total	**200**	**500**	**1000**	**1700**	**2700**	**3900**	**10000**
	Total	**929**	**2443**	**3701**	**3825**	**3702**	**3900**	**18500**
Cumulative								
Full package	Farm + non-farm	729	2672	5373	7498	8500	8500	8500
Finance Only	Farm + non-farm	200	700	1700	3400	6100	10000	10000
	Total	**929**	**3372**	**7073**	**10898**	**14600**	**18500**	**18500**
Cluster and Group Mobilization		**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Yr 6**	**Total**
Clusters	New	7	8	0	0	0	0	15
	Cumulative	7	15	15	15	15	15	15
Groups	New	40	80	55	0	0	0	175
	Cumulative	40	120	175	175	175	175	175

59. **Mitigation of social barriers and risks.** Key barriers identified limiting potential beneficiary access to FINCLUDE opportunities, as well as sustain engagement and enjoyment of associated outcomes, are as follows:

(a) Access to land and limited tenure security among male and female youth and women;

(b) Youth are in general not attracted to traditional agricultural production;

(c) Increased risk of acquisition of HIV by young women; need to increase health seeking behaviour among HIV positive pregnant women, youth and men;

(d) Potential increase of household tensions with increased income flows in households where both husband and wife are present;

(e) Food insecurity and malnutrition associated with lack of production of food for consumption by participating households and an increase in food prices.

60. Project interventions, including Social Mentoring, are specifically designed to help groups, households and individuals to sufficiently address these constraints and not compromise gains available through project interventions. At the same time, the methodology enables households to make decisions on how to best use all available resources to them to improve their livelihoods.

B. Development objective and impact indicators

61. FINCLUDE's Goal is the:

"Improvement in prosperity and resilience of poor and vulnerable Swazi smallholders and micro-entrepreneurs."

Success will be measured against the targets of:

- 8,500 individual entrepreneurs and MSME directly benefitting from a full range of FINCLUDE support ("full beneficiaries") increase profits (real net income) from farm or non-farm enterprise by >50%;

- An additional 10,000 individual entrepreneurs and MSMEs take and dully repay collateral free loans under the FIRM without receiving other FINCLUDE support ("finance only" beneficiaries);
- 5,600 Individual farm entrepreneurs and MSME direct "full" beneficiaries (80% of total) report a >50% increase in resilience score.

62. The Development Objective is:

"To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through increasingly profitable and resilient links to markets and access to appropriate financial services."

This will be measured against the targets of:

- 6,800 beneficiaries achieving annual return on labour in farm or non-farm enterprises of >120% of unskilled wage rate.

63. The total outreach of FINCLUDE will be 18,500 farm and non-farm enterprises, including smallholder farmers, composed of:

(a) 8,500 farm and non-farm enterprises who will directly benefit from a full range of FINCLUDE supported services and activities under Components 1-3 (referred to as "full" beneficiaries), plus

(b) 10,000 farm and non-farm enterprise who will primarily benefit from improved access to loans and financial service enable under Component 2 (referred to as "finance only" beneficiaries), especially collateral free loans from banks and other financial institution enabled through the Financial Instrument for Risk Management (FIRM) administered by the CBS. A sizable number of these are expected to be from SMLP's approximately 15,000 beneficiary households, enabled through the planned harmonization of the cluster development and mentoring approaches under the two projects.

64. Given the systemic nature of the interventions in the financial services sector, the project is also expected to create an ongoing stream of approximately 3,000-5,000 farm and non-farm enterprises per year who obtain collateral free loans and other financial services enabled by the permanent instruments established by the project.

C. Outcomes/Components

Outcomes

65. The expected Outcomes are:

Outcome 1	Profits to farm and non-farm household enterprises and MSME from inclusive clusters increased for multiple higher value products.
Outcome 2	Private investment increased in priority clusters and commodity sectors from smallholders and MSMEs.
Outcome 3	Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives.
Outcome 4	Climate resilience and climate finance mainstreamed into rural finance operations.

Components

66. FINCLUDE is presented as three components, each heavily reliant on the other and so must be delivered as a single tightly integrated project;

Component 1: Inclusive cluster development

a) Cluster brokering and investment facilitation

b) Building capabilities of producers and groups

Component 2: Increasing supply of rural financial services

a) Addressing the information divide between supply and demand for credit and other financial services

b) Partnerships with FIs to increase loan supply and savings

c) Financial Instrument for Risk Management (FIRM)

d) Capacity Enhancement and Policy Development Facility

e) Savings promotion and remittances

f) Partnerships to increase the wider quality of credit demand

Component 3: Climate resilient decision making and investment

(a) Climate-informed decision-making

(b) Investments in climate resilient clusters

(c) Long-term access to climate finance

67. FINCLUDE addresses comprehensively demand and supply side constraints. Component 1 develops credible rural business value propositions of size large enough to entice the appetite of banks to engage in offering them credit, while Component 2 exploits all the available resources of the financial sector and offers incentives to financial institutions to expand their offerings and actively participate in rural business development. As a result, the project is expected to introduce the desired quality of service to its beneficiaries and by extension to promote it in the rural financial sector in general.

While the components are designed to achieve maximum impact together, Component 1 and 2 have been designed to be highly effective even in the event that the required co-financing for Component 3 is not secured. Basic climate considerations have been integrated into components 1 and 2; the more enhanced and resource-intensive activities on climate resilience and climate finance are grouped in Component 3 contingent on climate co-financing. All major elements of the project are illustrated in
68. Figure 1 and summarized below. They are described in detail in Appendix 4. Component 1: Inclusive Cluster Development

69. **The project will catalyse the emergence of competitive clusters for a portfolio of products** with confirmed market potential and comparative advantages for smallholder production in the project locations, which could include areas benefiting by ongoing and previous IFAD investments (SMLP, LUSIP). Specifically, product clusters will be prioritized which have:

(a) Clear, current market demand for the specific products - sufficient to absorb the expected increase in production;

(b) Substantial confirmed interest from

  (i) traders and agribusinesses to increase their sourcing from smallholders and producer groups in the cluster locations;

  (ii) farmers, including smallholders and younger farmers, to expand and improve their production;

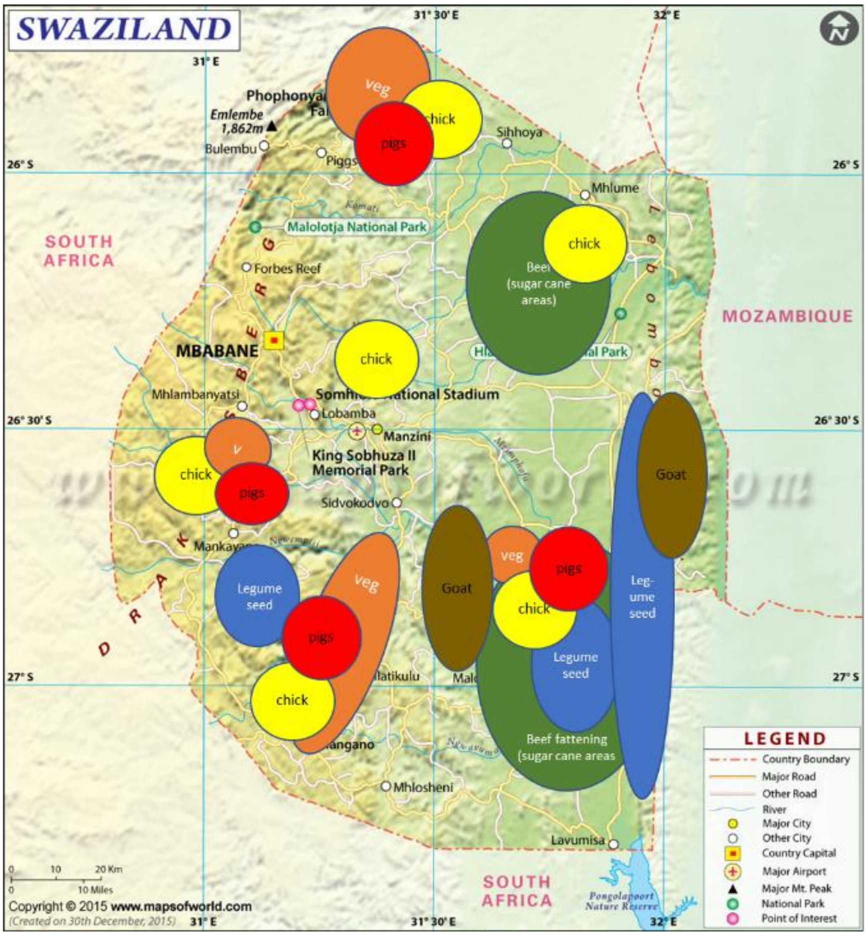
(c) Opportunities for competitive, profitable and sustainable smallholder production raising current low levels of agricultural production and productivity;

(d) Practical intervention opportunities for the project to facilitate the accelerated development of the particular industry and local cluster.

70. **Products supported must provide a realistic prospect of a good income in reward for hard work.** This means that products must be capable of generating net income per family worker at least 20% above unskilled-wage rates. At design this means target net incomes of E16,000 per year (USD1,250) - i.e. 20% above unskilled-wage rates, currently around E12,500 per year if working 250 days per year (approx. USD1,000). This is vital to help create a genuine appetite among the next generation of farmers (15-35 yrs) to live and work in their villages and avoid rural to urban migrations.

71. **To be genuinely inclusive, there must be profitable and realistic "affordable investment pathways" for poorer and younger farmers** to become successful players in their cluster alongside their more established neighbours. This means that minimum initial investments by target beneficiaries for all supported products must be affordable and lead to sufficient incremental incomes to enable reinvestment of part of the profits from each cycle back into the supported enterprise until it generates sufficient income at the levels outlined above. For the young, it is also essential that they see the first benefits quickly and feel they are on an upward path.

Figure 5: Mapping of potential candidate cluster locations



72. **The initial five commodities** are expected to include: red meat (beef, goat), poultry (indigenous chicken), pigs, vegetables and legume seeds. All commodities selection is based on the selection criteria defined in the PDR. The selection of the initial 5 commodities will be re-confirmed as part of the project pre-launch preparation activities through the cluster mapping and validation process to be completed, and any changes to the chosen commodities agreed between GoS and IFAD. The clusters under each of the initial 5 commodities may be phased-in over the first 3 years of the project, to allow the project teams time to gain confidence in the cluster development approaches. Additional commodities may be added during the project subject to capacity, resources and opportunities for

impact. A preliminary mapping of potential candidate cluster locations based on inputs from implementing partners is presented below.

73. Preliminary assessments of the opportunities and likely entry points for the five preferred commodities identified to date are summarized below with further details in Appendix 4. These will be enriched and refined during the cluster mapping in the pre-launch preparation activities.

Table 3: Initial commodities – status, entry points and opportunities

Commodity	Status / entry point / opportunities for impact
Indigenous chicken	There is strong demand across the region and domestically for indigenous chicken, as seen in the premium pricing vs. broiler chicken. Recent assessments show that only a small part (35%) of the domestic market is currently met (TechnoServe, 2017). On the market side, an important constraint is the lack of aggregation of supply, making it difficult for retailers and supermarkets to obtain sufficient and reliable quantities when needed for them to stock it as a regular item. Climate change impacts again on both the quantity and quality of feedstocks as well as directly on the health of chicken (through stress from heat and extreme weather events) and therefore productivity, however, indigenous chicken is likely to be more tolerant to these climatic variables than broiler chicken. On the supply side, various initiatives have demonstrated profitable commercial smallholder indigenous production systems (e.g. Woman Farmer Foundation) – typically with flocks of 300 birds and more. The investment requirements for building a minimum threshold for profitable operations (300 birds) is relatively small particularly given that most smallholder farmers already have the starter breeding stock. It is therefore a commodity with good potential for the participation of women and youth given the low investment entry requirements, fast returns and limited dependence on arable land.
Red meat	Market demand for red meat produced in Swaziland appears to be significantly strong both in the domestic market and exports, internationally, to the EU and regionally, to South Africa and Mozambique. It does not currently fill its EU export quota. The beef product line is more developed than that of goat meat. Climate change is likely to have a negative effect on pasture availability (quality and quantity) and on livestock health, particularly for cattle due to increasing heat stress. Clusters therefore need to focus on locations with secure water supply and feed resources, notable in the sugar cane areas. Key production constraints include: animal feeding practices; herd management (including poor commercial off-take practices, particularly for goats); inadequate supplier of quality calves/kids for fattening; inadequate coverage of animal health and production services to smallholder farmers; limited capacity of local abattoirs in some regions to cope with increased supply and meet quality standards, and; inadequate water infrastructure development particularly in the Lowveld. Improved feeding practice for cattle fattening using locally formulated feed have demonstrated high potential, reducing feed costs by around ¾ compared to commercial feed while achieving similar growth performance, and can reduce vulnerability to climate shocks, in a recent pilot funded by IFAD and implemented by ILRI and SWADE. Building on these lessons and techniques will be a valuable entry point.
Pigs	Sales growth potential for pork is very high as the country is currently producing only a small proportion (estimated at 15%) of the domestic demand with the rest met through imports. Production with improved breeds offers the best potential for profitable smallholder production, especially if combined with partial use of locally formulated feeds to reduce commercial feed requirements. Market side constraints primarily focus on limited local quality abattoir capacity, especially in producing meat products other than carcasses, and fragmentation of marketing chains. Mainstream buyers (such as supermarkets) want regular and dependable quality supply but a lack of organization among farmers and limited abattoir capacity currently limits the extent that such buyers can source from local smallholders. On the production side, constraints include an over-reliance on imported commercial feed with highly volatile prices, inadequate supply of breeding sows of improved breeds and insufficient commercial animal production and health services. In terms of climate change, increased temperatures reduce the feed intake and therefore productivity, and heat stress negatively affects animal health.
Vegetables	Two main groups of vegetables are cultivated: conventional vegetables mainly for the domestic market and baby vegetables largely for the export market. Given the open nature of the Swaziland market within the context of Southern Africa Customs Union (SACU), Swaziland smallholder vegetable farmers have greatest opportunities in domestic and regional markets by targeting off-season production (with respect to South Africa) and product lines which are highly

Commodity	Status / entry point / opportunities for impact
	labour intensive. The vegetables sub-sector has some good prospects for growth in both the domestic and export markets given the diverse agro-climatic zones of the country which allow year-round production and emerging business partnerships between smallholders and a number of market players who are targeting niche commodities and seasonal windows for production of various commodity lines. The major market-side constraint is the lack of commercial horticulture packhouses capable of serving domestic or export customers. The market is currently heavily distorted by NAMBoard which has mandate to act as the "market of last resort" but in fact uses import levies to subsidies its loss-making commercial operation thus inhibiting the development of competitive commercial packhouses. On the production side, key areas requiring attention include stronger farmer organization for attaining minimum volume, quality and supply consistency thresholds; irrigation infrastructure development; adoption of productivity enhancing technologies, innovations and management practices (TIMPs); and access to financial services. Climate change can have both positive and negative effects on productivity, but many vegetables would require investment in irrigation to counteract changes in rainfall and temperature.
Legume seeds	Grain legumes are a staple of the southern African diet and widely grown in Swaziland. They are particularly well suited to dry-land cropping with minimal initial entry barriers, meaning that it is likely to be very inclusive. (see example of turmeric – another dry land crop with low entry barriers - for highly inclusive impacts in Nepal, and hence the potential role of legume seeds for FINCLUDE (see Table 5, page 44). The potential market for Swazi legume seed spans the southern Africa region, facilitated by mutual recognition agreements for seed certification within the Southern Africa Development Community. In the last 3 years there has been increasing interest from domestic and regional seed companies to increase sourcing from Swaziland, for example for sugar beans. In parallel, several smallholder-based production clusters have emerged and even potential for some distinct product in strong demand for regional exports – e.g. speckled sugar beans. Major issues to be strengthened are aggregation, processing and market linkages. Irrigation to reduce vulnerability to climatic shocks and stress emerging from changing rainfall patterns and increased evapotranspiration, including from in-field catchment ponds, can substantially raise the productivity and quality of primary production – including reducing the variability of yield from year to year which is important to become a reliable seed supplier for export customers who value dependable supply.

74. **A more detailed competitiveness assessment of these commodities**, and other potential commodities of interest, will be conducted by the project team before final confirmation of the commodity selection. The competitiveness assessment will particularly focus on competitiveness versus other producers, especially those in South Africa, in the identified target markets. The competitiveness assessment will cover aspects of costs, quality and availability of supply in relation to customer and market requirements among other aspects.

75. **The project will adopt a cluster development approach.** Clusters (see Box 1) offer many advantages for smallholders in competitive commodity markets and can make it possible for clusters to be more inclusive. Clustering production to aggregate supply and reduce transaction costs between buyers and farmers as well as in the delivery of critical services (e.g. financial or technical services), is also vital if smallholders are to succeed in becoming reliable suppliers in the market. It is especially important for younger and poorer households who are only able to make the minimum initial investments and must expand their production gradually. Clustering can thus help improve market access for small farmers and hence make the above investment pathways viable.

76. **Cluster development processes will be driven by the primary actors themselves, principally farmers and MSMEs.** Farmers and businesses are the ones who must make their investments successful and carry the risks of failure. It is they who must drive the process. Facilitating an ongoing process of action-oriented dialogue and brokering among these key actors in each commodity cluster is a central element of the cluster development approach. The initial focus of these dialogue and brokering processes is grounded in immediate opportunities for actions and improvements that help build trust and momentum within the cluster. Only once momentum and trust begin to emerge is it feasible to jointly consider longer-term aspirations and begin to tackle them. The

dialogue and brokering process among key cluster actors should establish jointly owned action plans and progress tracking for the development of their particular commodity cluster.

77. **Support market development forms a vital part of the cluster development process.** Vibrant support markets, including commercial supply of inputs and services (e.g. technical, financial) are essential for sustaining competitive clusters and also for enabling other clusters to emerge to copy the initial successes (sometime called "crowding in"). Within profitable clusters and commodity sectors, the costs of such services and inputs should be an affordable routine business cost for producers and businesses and should not require external subsidy. FINCLUDE will therefore focus on facilitating investments that develop, in a broadly harmonized manner, the demand and supply of these market-based services and inputs in the clusters (see para 115), consistent with the pluralistic service framework envisaged in the recently drafted national extension policy.

1a) Cluster brokering and investment facilitation

a) Cluster selection and verification

78. For each supported commodity, the potential for the local cluster development will be re-confirmed by an initial rapid scan at start-up, including confirming buyers' demand, mapping, analysis of the cluster primary actors and supporters, and attractiveness of opportunities to smallholders, especially the next generation of younger farmers and to women and men – each of whom may have differing interests and constraints.

79. An opportunity verification workshop will be held for each commodity and cluster. The findings and evidence from the rapid scans will be presented back to representatives of the primary actors (producers, buyers, suppliers) to validate the conclusions and confirm if there are credible opportunities and commitments sufficient to justify FINCLUDE proceeding with the specific commodity or cluster.

80. The process of cluster identification will also collaborate with other organizations that are actively pursuing similar objectives. For example, this is expected to include working with the well run Inhlanyelo Fund as well as the more progressive bank such as the agri-business unit of Swazibank to identify potential market opportunities and cluster locations for the project to develop. A quick opinion (non-binding) may also be solicited from specific members of the climate change TWG on the climate risk for the given combination of geography and commodity. These partnerships would then be extended to ensure these important actors become active participants of the cluster development process, including via the MCMs and investment facilitation processes.

b) Market-oriented mobilization

81. Mobilization of farm and non-farm individuals and households into the cluster and project activities will be completed by a team of market-oriented cluster mobilizers. In working with farmers, the project will be free to work with existing farmer groups and organizations, and mobilize new producer groups focusing on the particular product depending on the reality in each community. As a general guide, based on past experience, existing groups should only be used as the entry point if a majority of their members want to join the specific commodity cluster concerned. If not, new producer groups should be mobilized.

Box 1: Clustering for inclusive rural growth

Clusters are a geographic concentration of interconnected producers, buyers, suppliers, and associated support institutions that creates direct and indirect synergies among them, resulting in market linkages. For the purposes of the project, this will typically be defined geographically by zones of production which form distinct buying zones of several competing buyers/traders.

Key actors in a cluster include:

1. primary actors such as producers, buyers, input suppliers, commercial service providers (e.g. technical services, financial services) who are directly involved in production, processing, trading or distribution of products or services in the supply chain, and
2. secondary supporting actors such as government and non-government agencies.

A cluster-based approach will geographically group the key actors along the value chain (VC) for a specific product in the same areas. This means that for a single commodity the project is likely to support several different clusters each in a different location. It also means that one village may have farmers participating in several different clusters, each for a different commodity.

A cluster-based approach is useful when the VC is highly fragmented or unstructured throughout its segments (production, transportation, distribution, enabling environment, etc.), thus requiring interventions by numerous stakeholders who could not resolve any single issue alone.

A cluster-based approach also creates a more enabling environment in which small producers can invest, get organized and develop as reliable actors in the supply chains by facilitating coordinated action on critical issues from production to market linkages or access to critical inputs and services.

A central part of FINCLUDE's cluster-based approach is a rolling cycle of multi-stakeholder cluster meetings at which the primary actors and supporting actors fully participate. Through these processes, key actors are able to discuss arising issues and develop action plans together to advance their cluster for mutual benefit. These processes build trust among stakeholders and strengthens coordination of the multiple stakeholders and VC segments.

For each priority commodity (poultry, red meat, pigs, vegetables, legume seeds) the potential for the local cluster development will be re-confirmed by initial rapid scans including confirming buyer demand and mapping and analysis of the different players (buyers, suppliers, banker, and service providers) and attractiveness to smallholders and especially younger farmers.

In FINCLUDE, as an approximate guide, a typical cluster when mature might include around 8 producer groups of 30-50 farmers per group – approximately 250-400 producers. These would ideally be supplying regularly to 3-8 buyers to ensure adequate competition. However, cluster may vary significantly in their size and composition.

The Multi-stakeholder Cluster Meetings (MCMs) are the central networking process within the clusters, linking producers, buyers and service providers. These are informal networking processes which drive joint cluster action plans but which do not necessarily require the formalization of the cluster networks into their own permanent organization, though formalization is possible if it delivers clear benefits and is desired by the cluster actors themselves.

MCMs, and the associated follow-up activities, will initially be facilitated by the project teams. Over time, this cluster facilitation role is taken on by primary actors in the cluster themselves, typically a joint working group of several leading buyers and leaders of producer groups. Initial handover of the facilitation role typically begins after around 3 years of cluster growth, once there is momentum in the cluster, maturing trust among different actors and experience of the MCM and cluster development process. Clusters for regularly traded and short cycle products (vegetables, chicken, pig) tend to mature more quickly than products with one annual crop – due to more frequent interaction among producers, buyers and service providers.

82. It is expected that the starting point for each commodity in each village may fall into one of three categories and the detailed mobilization process may be fine-tuned to accommodate these different starting points:

(a) Existing active producer group focused on the target commodity;

(b) Existing production of the target commodity by many farmers but not organized in a producer group;

(c) Minimal current production of target commodity by farmers and no organized producer groups.

83. Where production of the commodity is new to the local area, the mobilization process is expected to include additional steps to either demonstrate the intended production system in the local setting or exposure visits to other producers in similar conditions for the farmers interested.

c) Multi-stakeholder cluster meetings (MCM)

84. The core of the cluster development approach is a rolling process of action-oriented brokering, dialogue and investment facilitation among the key actors in each cluster to catalyse investments and remove bottlenecks to increase trading and profits, and make the most of practical opportunities for growth.

85. MCMs are the central element of this process. MCMs will be held regularly (at least 2 times per year) at the cluster level in each cluster, initially facilitated by the project team but later jointly by the producers and agribusinesses themselves. Commercial and non-commercial suppliers (of technical or financial services or inputs) as well as government agencies and other Supporters would also be active participants of such meetings.

86. The focus of the meetings is to enable the primary actors (farmers and businesses) to jointly identify practical opportunities and bottlenecks for developing their cluster and corresponding priorities for individual or joint actions. The meetings also foster trust among the different players, which is vital for sustaining longer-term commercial relationships. It also creates greater common understanding of the opportunities and challenges among primary actors but also critical suppliers, such as bank/MFI credit officers.

87. ***Investment Priorities*** for private and public good investments and follow-up by the project and others are set by the MCM process, in particular via a rolling joint “cluster action plan” (CAP) produced for each cluster as a key output of the meetings.

88. The rolling cycle of multi-stakeholder meetings also create a practical mechanism to locally coordinate the support of the various government and non-government initiatives that are relevant and active in the local area.

d) Investment facilitation

89. Driven by the **Investment Priorities** set through the MCM process, two types of investment are likely to be needed, each of which will be facilitated by the project when needed:

(a) **Private investment** – requiring private investment by a private individual, producer group or enterprise (e.g. buyer or supplier) that will capture most of the benefits from their investments. Some investments can happen without external support, while others may require some form of enabling public support - brokering, technical advice or financial support.

(b) **Public good investment** – where the majority of benefits are captured by a broad network of primary actors and it is not feasible for the investments to be financed as a private enterprise.

d.1) Private investment facilitation

i. Business-to-business (B2B) follow-up meetings

90. Shortly after the MCMs (within 1-2 weeks), bilateral follow-up meetings will take place, typically between a business (either a buyer or supplier) and a set of farmers who met during the MCMs and identified specific opportunities to do business together. The B2B follow-up meetings will focus on developing and negotiating practical trading plans between farmers and businesses to do business together. Experience suggests that it may take 3 or more follow-up meetings before a final agreement is negotiated.

91. In turn, the agreed trading plans will often lead to the need for specific actions or investments to be made by the farmers, business or both. The investments and actions may be taken individually or jointly, depending on what has been agreed.

ii. Investment planning

92. Good quality, but minimally complicated, investment plans will often need to be prepared by the farmers and MSMEs in responses to their agreed trading plans or for their own business development purposes. It is important that such plans are well informed, credible and realistic and based on sound technical and business foundations without being unduly complicated.

93. In many cases, small farmers and MSMEs may require specific technical support to prepare well-informed investment plans that can be presented to banks for financing. The project will facilitate those requiring such support to acquire it from suitably experienced service providers, with a strong preference for commercial service providers in order to stimulate development of critical support markets.

94. Farmers will already be participating in business skills mentoring in their producer group by this stage of the process. They will have growing confidence in understanding the financial aspects of the farm investment plans they are now considering. As needed, the project will arrange additional pre-investment technical advice to the farmers to ensure the plans are sound, including in terms of climate resilience. Such advice may be in terms of better understanding climate risks to the proposed investment, but also to identify technologies or strategies that can reduce those risks.

95. Agribusinesses requiring additional technical support in developing their detailed investment plans will also be supported by the project to identify and buy-in the necessary advice.

96. Where the investments are expected to require additional technical or business advice during implementation, the costs of such advice must be included in the investment plans themselves.

iii. Loan Financing

97. The project will facilitate cluster participants to link to partner FIs to apply for loan finance if need for their investments. Bank and MFI officers are expected to already be participating in the MCM and cluster process so should be increasingly familiar with the market opportunities and risks by the time the loans application begin to be received.

98. Where investments are to be made as multiple small investments by several cooperating farmers in a community, the loan applications and investment proposal will be aggregated and pre-screened to ensure adequate quality and completeness before they are submitted to interested banks. For multiple similar small investments, loan application may either be consolidated into a single loan application or as a single bundle of multiple smaller loans depending on the decisions of the applicants and the FIs.

99. Assessment of loan applications and loan decisions will follow the FIs standard procedures and the project will not be involved in this process. Saving will also be encouraged as an instrument for beneficiaries to build their assets and accumulate capital for investments in income generating activities.

100. Measures to increase the supply of loans are described under Component 2.

iv. Execution of investments

101. Investments will be implemented by the farmers and MSMEs themselves who will carrying the risks and rewards of their own investments. However, investment implementation will be supported through the ongoing process of producer group mentoring. Farmers will be supported to buy the necessary quality inputs and technical services they need for success. Where adjustments are needed to their plans during implementation, they will be supported to consider the cost and benefits of the different options and prepare revised plans that best suit their situation.

102. Technical advice required by farm or non-farm enterprises to implement their plans will be provided by commercial service providers with the costs of the services already allowed for in their investments plans. FINCLUDE will assist in identifying and screening of such service providers.

v. Investment supervision and reporting

103. For all FINCLUDE facilitated private investments, especially those made with loan financing, supervision and reporting of investment implementation and results will be carried out by the Cluster Development Team (CDT) as part of ongoing coaching of producer groups and MSMEs.

104. Data on performance of the investments will be compiled and analysed via the FINCLUDE MIS. Where potential performance issues are identified, the Cluster Development Team will work with the investor (farmer/MSME) and concerned FI to take corrective actions to prevent the investment failing.

105. Supervision will include both business and technical aspects to enable early identification of potential problems so that farmers and MSMEs can take corrective actions before they run into serious difficulties that put their investments at risk.

106. Where there is a mass default in a group or Chiefdom on loans facilitated by the project, the causes will be investigated, including with the local authorities. If there is no evidence of force majeure, or other extenuating circumstances, then the concerned group or Chiefdom will be exclude from future project activities until the debts are cleared.

d.2) ‘Public goods’ investment facilitation

107. A variety of ‘public good’ investments are anticipated to be needed during the project period to help grow competitive and inclusive clusters. These may range from ‘big ticket’ hardware, such as irrigation schemes, farm access road or wholesale livestock markets, to less expensive ‘software’ investments such as market research of new markets or action research on improved varieties or production technologies to improve resilience in specific agro-ecological zones.

108. Thankfully, there are numerous ongoing government and non-government support initiatives ongoing around the country. Many of these are well resourced and share similar core objectives with FINCLUDE to raise rural incomes. FINCLUDE will actively encourage these ‘Supporters’ of the targeted clusters and commodities to participate in the MCM processes and help develop a more coordinated support response.

i. Coordination with other support programme

109. FINCLUDE’s role for ‘public good’ investment is, therefore, primarily as an ‘integrator’ of existing support initiatives of the government and others. Through the MCM process, FINCLUDE will create a practical mechanism for the various Supporters to develop a common understanding of the opportunities and constraints in the clusters and the relative roles that each can play in addressing these with their resources.

110. Where there are gaps in available resources to address critical ‘public good’ investments that have been prioritized by the farmers and businesses in a cluster, FINCLUDE will be able to mobilize resources from its own Sector Development Facility implemented either on their own or combining with resources of other non-FINCLUDE sources.

ii. Sector Development Facility (SDF)

111. A Sector Development Facility will be managed directly by the PMU for investment in "public goods" that address specific bottlenecks to the cluster development identified by the primary actors themselves, typically through the multi-stakeholder cluster meetings. The SDF will focus on "public good" investments only that cannot be delivered through private investment in the current context of the local clusters and which are not being addressed through other public support programmes.

112. The types of investments possible under the SDF will include, for example: expansion of import quarantine facilities (e.g. required to supply cattle fattening feedlots), action research on production/ issues, variety/production trials in targeted agro-ecological zones), developing and testing locally formulated feed recipes adapted to specific AEZ, piloting novel or untested business models, etc.

113. Investments under the SDF will be managed as distinct sub-projects, implemented either directly by the project teams or a suitably qualified contracted organization from either the private or public sector. Selection of the implementing partner for each sub-project will be based on purposeful selection of the best qualified to deliver the sub-project objectives and activities but with an element of competition where multiple equally-well qualified and interested potential partners are available. While SDF will focus on "public goods", the private actors will be expected to make a financial contribution of at least 5% to all SDF sub-projects to confirm ‘ownership’.

114. The SDF will be complemented by, and jointly managed with, the Climate Investment Facility (Component 3), contingent on climate co-financing.

e) Support market development

115. FINCLUDE will actively foster the development of support markets, including market-based non-financial services and input markets, for all supported commodities and clusters. Such services are expected to include: for livestock – animal production and nutrition advice and services; veterinary services; specialist equipment suppliers (e.g. incubators); feed and veterinary medicine suppliers. For crops these are expected to include: crop production advice including climate-smart agriculture; crop protection services, mechanization services (especially for field crops such as legume); equipment suppliers (e.g. drip irrigation, trellis nets, grading machines); grading and packaging services. In addition, transport, storage and marketing services are also vital and FINCLUDE will facilitate producer groups, cooperative and SMSE to invest and develop these services.

116. Historically, the public sector has dominated the provision of many services, often for free or with heavy subsidies. As such, FINCLUDE will need to have a strong focus on fostering the growth of networks of competent market-based service providers within the context of a pluralistic agricultural service framework - that is the basis of the recently drafted agricultural extension policy. It must stimulate demand for market-based services in parallel to building up supply of such services.

117. To address this, FINCLUDE will draw on successful experience from elsewhere in the development of these markets. For example, in the case of horticulture services, local traders and packhouses will be encouraged to recruit their own agronomists to provide embedded service to the producer groups supplying them. Over time, such embedded services may remain embedded but often covert into independent commercial service providers working in the same clusters once producer demand for such services become more established. Similarly, as producer groups and cooperative mature they will be supported to develop the business plans for setting up their own service provision to their members and others, including recruiting their own technicians. For livestock production and health services, effective approaches have been to develop networks of independent local private livestock technicians that are then facilitated to form jointly technician-owned service enterprises or cooperatives. FINCLUDE will learn from such experience and identify those approaches best suited to the conditions and opportunities in each cluster.

118. As such, private investment by suppliers of critical inputs and services will be encouraged by the project – either by SMEs, cooperatives or individual micro-entrepreneurs wanting to provide market-based services to producers or others in the supply chain. Existing and potential suppliers will

be encouraged to join the MCM processes to better understand the demands and opportunities in the clusters. It will also provide opportunities for them to establish networks of potential future customers for their services. Such small commercial suppliers and service providers will be provided with the same investment facilitation support as producers and buyers, including investment planning support, pre-investment technical and business advice, facilitation in accessing loans as well as mentoring during execution if needed.

119. It is expected that many of the technical services needed will provide opportunities for youth to engage in the clusters in non-farming roles. Some of these opportunities may be as the technicians hired by buyers or cooperatives to work with farmers or in roles such as grading, packaging, QA or marketing for cooperatives, buyers and other actors in the supply chain.

120. The entry point during early implementation will be to complete specific local assessments in each confirmed cluster of the priority services needed, current providers and potential new providers including analysis of: availability, value-for-money, quality range, options in terms of sources of funding and delivery. As part of the MCM process in each cluster, specific plans will be developed to facilitate the deepening of market-based services in the cluster – including promotion of demand and strengthening of supply. Progress against these plans will then be regularly monitored as part of MCM-driven cluster action plans and processes.

121. MoA extension teams, as part of the core implementation teams, will play a critical role in providing technical backstopping and support to the emerging private service providers as they have good technical knowledge and skills but lack the budgets and resources to provide the scale of outreach demanded by farmers. Their role in mentoring networks of good quality local private service providers will help ensure that more farmers have better access to quality services. As part of this process, additional professional and technical training to private service providers will be financed under the Sector Development Facility, if necessary.

122. **A critical policy issue for support market development**, with direct practical implications, is to ensure that free or heavily subsidized services are not provided unnecessarily to profitable clusters and commodities that can afford to pay for them. Providing subsidized services where they are not needed will directly undermine the emergence of sustainable commercial support markets and create continued dependence on very limited public resources. These issues of coordination and alignment are aligned with the new draft extension policy of MoA which envisages a pluralistic extension system, of private and public provision with each focusing on their appropriate roles. In support of the operationalization of this, FINCLUDE will:

(a) at the policy level, provide specific support to MoA to clearly define the future roles of MoA and the public sector in a vibrant pluralistic agricultural extension system for Swaziland.

(b) address these issues at a practical level through the MCM and local coordination processes.

f) Research & Development

123. Linkages between the project and local and international research institutions will be fostered to increase availability and use of improved technologies already developed but not yet widely adopted. The primary mechanism for dissemination of these improved technologies will be via commercial service markets and the large and small commercial service providers that will be encouraged to expand by the project.

124. Research institutions will also be encouraged to participate in the MCM processes in order to introduce their technologies to producers and MSMEs and also to gain further insights into the priority issues of concern to the clusters where further research could be directed. Where such issues are considered a priority by the primary actors, the project will be able to mobilize resources from the SDF to support specific pieces of research.

1b) Building capabilities of producers and groups

iii. Business skills mentoring

125. Business skills for farmers are vital if they are to succeed in the supported clusters. Being better able to assess the likely cost and benefits of investing in their farming enterprise will equip rural households to make more informed choices as to the real affordability of finance and loans to support their farm investments. It is especially important that young women and men gain these business skills and so will be prioritized for these activities.

126. Business skills training, focused on farming as a business or non-farm enterprise, will be provided to all interested individuals in a cluster through a peer-to-peer process. Business Skills Mentors (BSMs) will be nominated by each group from among their peers and will then be trained to provide business skills in their local community. They will be paid by the project for delivering training sessions and are expected to gain high levels of skill and confidence, contributing increasingly to supporting the preparation of farm/non-farm investment plans and helping with collective negotiations between their group and traders / buyers. As residents in their community, these skills will remain after the project and continue to be available to support their peers in the future in preparing investment plans, loan applications or joint negotiations with new buyers and so enabling easy replication and scaling-up of successful models.

127. The scope of the business skills training will focus on:

(a) Financial literacy and household economy;

(b) The importance of saving and how to do it;

(c) The role of remittances and how to use them to best effect;

(d) Farming as a household business, including record keeping and climate resilience considerations (similarly for other non-farm household enterprises);

(e) The changing climate and how to factor it in to your business decisions;

(f) Group management and governance for business purposes;

(g) Commercialization, marketing and negotiation – becoming a reliable player in the market.

128. **On remittances:** training modules to support households, including both women and men, to better prepare for and make use of migration and remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment.

129. **On climate resilience**, the producers will be guided through a facilitated process to re-confirm that the product for the cluster they have chosen to join is a sensible choice for them individually given the local agro-ecological conditions and expected local impact of climate change. The process will also help farmers to consider if there are specific 'no regrets' adaptation or investments to their intended production practices and investment plans that would increase the climate resilience of their farm investments, thereby reducing the chances of failure. This process will be enhanced by the Climate Information Services activities in Component 3.

iv. Producer group coaching and graduation

130. FINCLUDE's objective is that all producer groups (whether formally registered or not) should graduate to being fully independent, financially robust and self-managing within 4 years of project engagement.

131. This will be delivered through coaching of the group in-line with the natural stage of development of the group itself and its next target level of development given its own plans in the cluster and beyond. This coaching also involves the use of self-diagnostic and self-improvements tools, so each group can "own" its development process and regularly benchmark its strengths and

weakness against objective measures. Group coaching will be led by the cluster mobilization team with support from the CDO.

132. If farmers are not already in active producer groups, such groups will naturally coalesce through the increasing engagement in the cluster processes driven by shared interest and clear mutual benefits of increasingly working as a group on critical activities – such as collective purchasing of inputs and collective negotiation to attract more reliable buyers.

133. In contrast to other approaches in Swaziland, it should be noted that the project will require a group to demonstrate a very high level of maturity and capacity before the project would support them to invest in major common productive assets – such as group owned feedlots, packhouses or processing facilities – as these require professional management well beyond the capacity of recently mobilized groups, thus creating substantial risks to the financiers and also creating dependency of the group on external technical support services which undermines its independence and sustainability.

v. Social mentoring

134. Social Mentoring will be offered to FINCLUDE beneficiaries to address risks and barriers and ensure that households are able to maximize their socio-economic progress. Mentoring activities will be delivered at community level and in groups. Households in which husband and wife are both present will, in addition, benefit from social mentoring at household level to address specific gender equality issues such as household decision-making and control over productive resources and others. Social mentoring will be integrated in a larger mentoring package focusing on producer groups mentoring and business skills building using of the peer-to-peer Business Skills training methodology, used successfully by IFAD and other agencies in Asia.

135. On remittances, the social mentoring processes will also address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families, and how such issues can be managed so that they do not undermine the positive opportunities associated with migration and remittance.

136. Social mentoring activities will be inspired by several evidence-based approaches:

(a) The Gender Action Learning System (GALS) – for the development of a joint household vision, and development of corresponding plans; discussing opportunities to assist youth in effectively engaging in the local (rural) economy (access to land, mentorship, etc.); improving common areas of gender inequality; assessment of other risks, barriers and opportunities and corresponding solutions.

(b) Stepping Stones – a behaviour change methodology facilitating the assessment of risks associated with to HIV and AIDS and paths to reduce / mitigate them.

137. HIV/AIDS and nutrition are important issues among target communities and especially for young women, for reason outlined in Appendix 2. The group-based social mentoring processes and individual mentoring of high risk households using household methodologies will seek to address both of these issues. Given the widespread importance of these issues, it is fully expected that they will be identified as key risks to their personal and families' development by the women and men themselves through the mentoring process. This process then facilitates a self-led discussion and identification of the underlying factors which contribute to these problems and their complex interaction, which may be diverse and include personal knowledge, attitudes and behaviours, intra-household dynamics, social norms, economic factors, etc. Having set-out where they would like to be and the factors contributing to their current situation, the mentoring processes then support individuals, households and the wider community to discuss and agree practical changes they can each make to begin to address the underlying factors and initiate a process of gradual positive change. Such issues can be complex and sensitive, often relating to power dynamics within households and communities, yet cannot be solved by one individual acting alone nor in a single change. The household methodologies and group-based mentoring is therefore sustained over 2 years to provide a safe and sustained space for positive changes to gradually evolve and become the new norm. For nutrition, this is expected to result in

positive behavioural change especially among young women in ante-natal and early childhood nutrition and hygiene practice (with the critical first 1,000 days from conception) and a corresponding improvement in child nutrition. For HIV/AIDS, this is expected to result in positive changes in behaviours and attitudes at the individual, household and community levels and an overall reduction in high risk behaviours.

Migrant households and Remittance

138. Training modules to support households, including both women and men, to better prepare for and make use of migration and remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment. Similarly, the social mentoring processes will also address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families, and how such issues can be managed so that they do not undermine the positive opportunities associated with migration and remittance. Migrant households and their individual members will be enabled to balance the costs and benefits of migration with the concrete opportunities to invest in cluster commodities and activities.

Component 2: Increasing supply of rural financial services

139. Financial inclusion refers to quality and access to a wide range of financial services not just access to credit. That would imply correct market segmentation, targeting of customer service and availability of data on the density, needs, habits and disparities of the various segments of the rural communities. Different strata of the beneficiary structure would require different mixes of the following financial services: asset protection, payment and transaction mechanisms, insurance from catastrophic events (health, natural events, etc.), start-up capital, consumption smoothing, risk protection and safe saving. Low usage of credit is indicative of a number of barriers to uptake: rural communities are not aware of the various financial products available while failed efforts to access credit for reasons that are not clear to the applicants have developed negative perceptions (banks not transparent, charge high fees and not targeted at the ordinary man).

140. FINCLUDE addresses comprehensively demand and supply side constraints. It develops credible rural business value propositions of size sufficient to entice the appetite of banks to engage in offering them credit, while it exploits all the available resources of the financial sector and offers incentives to financial institutions to expand their offerings and actively participate in rural business development. In parallel, it supports borrowers in meeting their loan payments on time and creditors to mitigate their risks. As a result, the project is expected to introduce the desired quality of service to its beneficiaries and by extension to promote it in the rural financial sector in general. Access to savings as an instrument to smooth income and build assets will be promoted.

141. Activities under the component fall into the following areas:

(a) Addressing the information divide between supply and demand for credit and other financial services;

(b) Partnerships with FIs to increase loan supply and improve savings culture;

(c) Financial Instrument for Risk Management (FIRM) (Credit Guarantee Scheme);[41]

(d) Capacity Enhancement and Policy Development Facility (CEPD);

(e) Savings promotion and remittances;

(f) Partnerships to increase the wider quality of credit demand.

[41] To limit the risk of moral hazard the project will make every effort to keep secret the existence of the credit guarantee contained between the FIs, the CBS and the CFI. Therefore it is named FIRM instead of Credit Guarantee Scheme.

2a) Addressing the information divide between supply and demand for credit and other financial services

142. There is a material lack of reliable and actionable data on both the demand and supply of rural financial services in Swaziland. This makes it extremely challenging for FIs operating in the sector to grow profitably and for policy makers to know where and how best to support the sectors development. FINCLUDE will begin to address this information divide through three information platforms for the industry:

i. Financial demand and supply database

143. FINCLUDE will produce an active database through which it will monitor the evolution of both active demand and supply for financial services throughout the project's lifecycle. It will regularly update data on the status of its beneficiaries by Cluster Mobilisers, and data for the rest of the rural population by cooperating institutions (initially including MoA, MoTAD, SEDCO and SNAU). This will be done through a comprehensive financial demand and supply survey. This exercise will be designed so as to complement the Finscope surveys conducted in 2011 and 2014 by FinMark Trust.

144. Analysis of the data collected will derive a 'matchmaking matrix' - defining which types of lenders are appropriate for which types of borrowers. With this 'matchmaking matrix' tool the project teams will be able to easily channel inbound requests from smallholders and MSMEs to suitable financiers. The analysis will conclude by defining a financial graduation roadmap that will describe the steps required for each type of borrower/client to advance to the next level of development, until full financial graduation has been attained. Full financial graduation is when the borrower/client is self-sufficient in accessing appropriate financial instruments to purchase inputs, support production process, and secure distribution channels and markets.

145. For CFI, and the wider financial services industry, a useful product would be to have an effective level of integration between the different databases herewith proposed that would be able to generate a map of the access points and what services are available to the beneficiaries in one given area, not only the type of loan but also, for example, the savings services and remittances.

ii. Savings and Credit Group (SCG) Database

146. Similarly, FINCLUDE will establish a comprehensive record of all SCGs (registered and unregistered). This task has proven difficult in the past. SCGs and NGOs are usually reluctant to share information fearing they may be pushed to be formalised and bear the ensuing cost.

147. The project will approach data collection anonymously and the records kept will not name the SCGs. The project will seek cooperation from MoTAD and World Vision with the aim to engage them in the clusters. The project will offer technical capacity when necessary and in return will be receiving data on SCGs.

148. The resulting database will inform on SCG's location, type (rotating, accumulating), no of members, size and frequency of member contributions, capital and lending portfolio, size duration, type and cost of loans, repayment rate, book-keeping methods, training offered and interest in becoming formal. The database will be updated twice a year and data will reveal the untapped potential within the sector, giving to the project grounds on devising ways on how to channel this potential to become productive. Currently SCGs overlap both geographically and functionally as they are predominantly formed only to facilitate project specific agendas.

149. Over time, this function should be institutionalized either within an SCGs apex organization, if existing, or CFI. An example of data that would be valuable to track can be seen in the SAVIX (http://www.thesavix.org/), which is a reporting system that provides standardised reports on SCGs programmes worldwide.

150. The database will have a two-fold function: a) it will permit CFI to streamline future SCG-related donor interventions so as to avoid duplication and redundancy and b) it will allow poorest segments of the beneficiary structure to tap on unutilized liquidity of SCGs for loan sizes of SZL500-5000.

iii. Credit History of beneficiaries

151. FINCLUDE will establish an active database, i.e. a Credit History Tool, accessible to participating financial institutions, through which it will monitor repayment schedules of each and every FINCLUDE beneficiary and the performance of all loans facilitated by the project.

152. If this credit history tool proves useful to the project and its partner financial institutions, and there is demand from these partners to extend it to cover other parts of the sector, then FINCLUDE will assist the MoF and financial services sector to scale it up to become a formal Credit Registry.

2b) Partnerships with FIs to increase loan supply and improve savings culture

153. Rural micro-entrepreneurs are looking for investments in the range of SZL5,000 to 20,000, while some poorer smallholders may initially need micro-loans in the vicinity of SZL500 to 5,000. Rural SMEs require financing larger than SZL100,000 and up to SZL1,000,000. FINCLUDE facilitates access to financial services for all three categories and especially the smallholders and rural micro-entrepreneurs who are poorly served at present.

154. Financial institutions fall into three tiers in terms of loan supply: Banks and DFI serving the large customers, MFIs providing small loans and Savings and credit groups providing micro-loans. The constraints and solutions from FINCLUDE for each tier are summarized in Table 4 below.

Table 4: Loan supply constraints and solutions

Current RF offerings	Constraints / Opportunities	Target Market	Solutions
Banks and DFI offer loans minimum SZL 100,000	Small loan sizes lead to higher transaction costs. Lack of professional business approach to investments by smallholders and MSMEs. Security/collateral constraints as most production is on Swazi National Land. Comfortable investing in untested value chains, with untested stakeholders. Banks fully support and endorse FINCLUDE's approach.	Smallholders and MSMEs in need for investment capital starting from SZL 5,000+	Cluster beneficiaries with similar interests and approach the banks with higher volumes. The banks can then decide on group or individual loans. A credit guarantee will be an incentive for the banks to engage. TA can be provide to banks for VC analysis, development of VC finance products and innovative delivery methodologies. In the long term, banks are expected to get comfortable with rural value propositions other than the sugarcane industry.
MFI	Only one MFI currently operating so coverage is incomplete. The MFI expressed interest in partnering with the project.	Loans sizes of SZL500-5,000	Partner with the existing MFI in clusters where they are operating. Feasibility study on establishment of new market-driven MFI. Wholesale credit guarantee for on-lending will increase lending capital available.
SCGs	High levels of liquidity within many individual SCGs due to low uptake of loans. World Vision expressed interest in partnering with the project.	Loan sizes of<SZL3,000	Support for the strengthening of one or more apex mechanism that will be able to improve SCG liquidity management. Partner with MoTAD and World Vision to involve existing SCGs in FINCLUDE and create new ones where necessary.
YEF	YEF was dormant for the past three years. Since August 2017 it	Loan sizes <SZL 50,000 for	FINCLUDE will collaborate with YEF as they both target youth. It

Current RF offerings	Constraints / Opportunities	Target Market	Solutions
	operates under a new management structure and with a new promising business plan. CFI is already supporting the new YEF leadership to develop its new business model.	youth	will offer capacity building through the cluster mechanism and will benefit from the preferential credit offering of YEF.
Mobile money	Increasingly widely used for financial transactions but no current credit products yet.	All	Work with Mobile Money service providers to: make services, including remittances, more accessible to the target group, leveraging the mobile money payment system. reduce transaction costs of bank transactions and by extension interest rates to beneficiaries, and introduce new mobile money-based products (cross border transactions, savings and credit offerings, etc.)
Savings	35% of adults in Swaziland do not save. Only 30% of adults are saving at the bank, but don't use the bank.	All	Develop a mandatory savings culture among beneficiaries. Support FIs to develop savings products for the beneficiaries.

155. The FINCLUDE strategy and actions to improve supply from each tier are summarized below.

156. FINCLUDE's strategy and actions embrace all target segments. FINCLUDE is trying to make available to the target group the largest amounts of credit existing in the Swazi market i.e. those of the banks and therefore focuses on the partnership with the banks. It offers the FIRM as an entry point for the banks but envisions to address the information divide in the sector.

157. FINCLUDE will also undertake a full feasibility study for establishing a new market-driven MFI and will support the strengthening of one or more SCG apex organizations. Should these two offshoots mature to become fully operational, FINCLUDE will have a toolbox for all three tiers of the rural target market summarized in Table 17.

158. Moreover, FINCLUDE will engage with the mobile money network operators to take stock on the achievements of its predecessor RFEDP. It will continue supporting the operators and will liaise between them and the regulatory authorities to promote the development of a full range of banking products for the unbanked and reduce transaction costs of formal financial institutions, thus giving them the opportunity to offer lower interest rates to the target group.

159. Finally, FINCLUDE will promote savings to have a central role in its strategy and especially for the lower tiers of its target group. Project beneficiaries will be strongly encouraged and supported to save in partner banks (potentially, as a precondition for participating in cluster activities) or in existing/new SCGs[42]. The banks will also be supported to develop relevant savings products if needed.

[42] Mandatory savings, goal specific savings and individual non-withdrawal accounts.

i. Banks

160. FINCLUDE proposes a pathway to circumvent the bank's current constraints in extending financing to rural entrepreneurs and smallholder farmers. FINCLUDE will:

(a) aggregate beneficiaries with similar investment plans and empower them until they can forward a common loan application (or a bundle of highly similar small applications). An application of a group of ten (for example) beneficiaries can then add up to a size that makes it worthwhile for a bank to become involved.

(b) offer the project's credibility and collective skills to cater for the banks' inherent uncertainty towards unfamiliar businesses and entrepreneurs, including pre-screening investment opportunities, building business skills of farmers/micro-entrepreneurs and providing non-financial support in and around the cluster including linkages to buyers and technical services and suppliers.

(c) introduce a Financial Instrument for Risk Management (FIRM) as an incentive for the banks to engage with reduced collateral expectations. In the longer-term, banks are expected to gain experience in assessing risk of rural investments – other than the sugarcane industry – and start offering relevant products without FINCLUDE's intervention.

(d) Support partner banks to enter and expand outreach in rural areas through innovative financial products, services, and delivery mechanism for smallholders and rural MSEs.

ii. MFIs

161. With just one well -functioning MFI operating, FINCLUDE will support the MFI sector through two mechanisms:

(a) inviting the existing MFI (Inhlanyelo Fund) to participate in cluster meetings and cluster development processes, and

(b) complete a full feasibility study on the establishment of a new market-driven MFI to deepen the sector and expand coverage.

162. **MFI establishment feasibility study.** Having additional depth to the MFI sector is highly desirable, especially for the provisions of micro-loans (between SZL500 and SZL20,000) to the lower-income strata. However, the creation of a new market-based MFI is a substantial and complicated undertaking, needing 7-10 years and thus beyond the scope of FINCLUDE to lead such a process.

163. FINCLUDE will therefore support a full feasibility study on the establishment of a new market-driven MFI, as there is clearly a gap in the market and a need for more players in the lower end of the market. This study will provide the mechanisms to facilitate more in-depth discussions among different players - including the existing banks and Inhlanyelo MFI - to assess their interest/resistance to a new market-driven player in the smaller end of the market. It would also investigate the feasibility of different scenarios, all following recognized good practices and sustainability principles, for mobilizing both the market-driven management expertise as well as necessary funding. Scenarios to be investigated would range from fully private-led to public-private partnership (PPP) models. For example, one such PPP scenario could involve some of the existing banks/Inhlanyelo contributing management expertise and some capital and the government also contributing substantial lending capital sourced from its dormant funds (e.g. the poverty reduction or youth development funds).

164. The feasibility study will be completed in Year 2 and coordinated by CFI, with external technical assistance as needed, and is a strong fit with CFI's core mandate - as a broker/deal maker to help transform the sector for the better.

iii. Savings and Credit Groups (SCGs)

165. FINCLUDE will also engage with the SCGs. It will not necessarily create new ones but will assist in streamlining the function of the existing ones. It will start with cataloguing SCGs, as outlined

above. It will then partner with SASCCO, MoTAD and World Vision to examine ways through which untapped liquidity among SCGs can be pooled and channelled to the rural target group. As a part of smallholders' demand for micro loans falling within the SZL 500-5,000 range (difficult to be satisfied by banks), SCGs can help cluster members to save up the required resources for their initial investment.

166. In an initial agreement, SASCCO (the apex organization of SACCOs) committed to identify and strengthen a number of rural SCGs (at least 20 per year), to improve their capacity and extend loans to farmers in project clusters. Furthermore, World Vision initially agreed to partner with the project, benefit from the cluster capacity building activities and promote some of its SCGs to reach the formal financial sector. Moreover, these SCGs will be part of the beneficiaries' credit sources. Finally, MoTAD will partner with FINCLUDE and, among other things, will assist in streamlining the operation of SCGs at chiefdom and Tinkhundla level.

iv. Mobile Money and Remittances

167. RFEDP initiated cooperation with MTN (the mobile network provider) since 2011, to expand the use of mobile money in the rural areas. Mobile money is now extensively used for transaction payments throughout the country. Mobile money offers financial services over mobile phones, from simple person-to-person transfers to more complex banking services.

168. FINCLUDE's aim will be to a) use mobile money to reduce transaction cost for the banks and, by extension, lower interest rates charged to beneficiaries; b) introduce mobile money related products also accessible by SCGs and their members; and c) facilitate cross border transactions and lower the cost of remittances.

169. Given the thrust that mobile money has taken, FINCLUDE will assist MTN in diversifying the product with offerings targeted to support rural entrepreneurs. MTN will then benefit from further expanding its market share and increasing the transaction volume per customer.

170. FINCLUDE will also engage with the coming new telco operator (Swaziland Mobile) to investigate possibilities of cooperation for further expanding the reach of mobile money.

2c) Financial Instrument for Risk Management

171. FIRM is an instrument that will guarantee banks against loan defaults with the aim to reduce/replace collateral. The introduction of the FIRM will provide the necessary security to the banks so that they can extend farmer loans thus: a) improving financial inclusion of the target groups and access to a wide variety of financial services; b) encouraging the banks to forge stronger links with the rural sector and increase their capacity to identify and properly assess the credit risks linked to rural businesses; and c) eventually tailoring new financial products and services for the rural communities, including investment and working capital loans, product financing, receivables financing, insurance etc. In addition, the Wholesale Guarantee window within the FIRM is expected to improve MFIs' access to wholesale funding for on-lending.

172. The FIRM will be entrusted to the Central Bank of Swaziland (CBS) who is already the custodian of the existing SME guarantee scheme (SSELGS) and has relevant experience. The CBS has an established working guarantee apparatus operating for the last 25 years and more. CBS has two full time staff dedicated for this operation and SSELGS is opened only to the banks. SSELGS is guaranteeing primarily individual loans extended by the banks to SMEs as defined by the SME Policy (policy issued in 2005 and currently in the process of being revised), criteria defining SMEs are: (i) small enterprises - from 10 to 20 employees, total assets valued between SZL50,000 and SZL2 million and turnover below SZL3 million, and (ii) medium enterprises - up to 60 employees, total assets valued between SZL2 million and SZL5 million and turnover below SZL 8 million. Both the small and medium enterprises have to be formally registered. Participation agreements are signed between the banks and SSELGS, and are to be renewed on a yearly basis.

173. All banks operating in the rural areas as well as the Swaziland Bankers Association expressed strong commitment, including at the CEO level of the five main commercial banks, to the FIRM and

the projects objectives. Some even proposed to leverage additional own CSR funds to be channelled through the project for the benefit of the target group.

174. The new FIRM will operate under the strategic direction of a Steering Committee (comprised by the CBS Board, the CFI, the Association of Banks and an MFI). It will offer three types of guarantees: i) portfolio, ii) individual, and iii) wholesale for on-lending and adopt simpler and less costly operational processes – especially in the claims procedure. It is noted that the cumbersome, slow and costly claim process of the current SSELGS is a significant factor in its sluggish performance.

175. The FIRM will be entrusted with USD1 million and an additional USD0.5 million if it reaches trigger performance by the third year of its operation. It is expected to leverage between 8 and 10 times its value in loans and be open to the banks and other credit institutions operating under the Financial Services Regulatory Authority (FSRA).

176. The sustainability of the FIRM will be achieved by accumulated income deriving from: a) fees paid by financial institutions participating in the scheme; and, b) income from investment of the FIRM's proceeds into fully secured financial instruments. Accumulated income would cover the scheme's operating costs and eventually recapitalise the FIRM.

177. FIRM support should be temporary. Once rural micro-entrepreneurs or smallholders have dully repaid their loans, they should have already developed sufficient positive credit histories to be offered loans on business terms without additional guarantees.

178. With a stipulated leverage ratio of 5-10 times, it is expected that the USD1.5 million will raise up to USD25 million of loans to the target group during the life of the project, and an ongoing stream of at least USD5 million per year thereafter. If by the third year FIRM is operating at full capacity with the USD1 million (i.e. 10 times leverage, average NPLs less than 7%), FIRM will be topped-up with a second tranche of USD0.5 million. The projection of loans is expected to follow the subsequent yearly disbursement trend. (Figure 21).

179. **Portfolio guarantees:** 70% of the FIRM will be offered as a portfolio guarantee to selected financial institutions under the following criteria: a) experience in rural financing; b) leverage; c) interest rates; d) rural finance specific products; e) portfolio quality and past performance.

180. Portfolio guarantees will cover 80% of individual loans up to a cap of 7% on the total portfolio guaranteed. Portfolio guarantees will target beneficiaries requesting loans between SZL5,000 (individually) and SZL200,000 (individually or as a group). Eligible investments will be those in agriculture, agribusiness, or non-farm rural (MSME's with 1-10 employees, less than SZL50,000 in assets and turnover smaller than SZ60,000 a year).

181. Financial institutions will be given a quota, to be renegotiated yearly upon performance. Each financial institution will be secured for loans issued under a guarantee until their maturity. If repayment schedules are delayed, the financial institution should inform the CBS and the project so as to initiate corrective action. Loans issued under this facility are expected to be of two years maximum maturity, though this may be reviewed by the FIRM's Steering Committee from time to time. The CBS will charge a management fee of approximately 0.7%[43] of the value of every loan issued under FIRM.

182. Claims process will be streamlined. Loans with repayments delayed for more than 90 days will be considered non-performing and the financial institution will be entitled to claim repayment from the FIRM. The claim should be made within 30 days starting from the date a loan has been declared non-performing and provided the financial institution has started litigation against the client. Within 5 days the CBS and the project have the right to assess if the loan was eligible, due diligence performed and relevant fees were paid. If the financial institution does not receive an objection within 5 days, it is entitled to be repaid.

[43] Final percentage fee to be agreed with CBS following analysis of operating costs during pre-launch activities.

183. Importantly, the existence and use of the guarantee should never be revealed to the borrowers to avoid decrease in repayment performance. This will be considered a breach of the guarantee conditions and invalidate the guarantee.

184. **Individual or wholesale guarantees.** The remaining 30% of the FIRM will be offered as individual or wholesale guarantees.

185. Individual guarantees will be offered for longer-term investments (5 to 10 years) of larger size and will be decided by a Committee comprising members of CBS, the project and the issuing financial institution. It will be issued for loans for investments on rural infrastructure or other strategic investments. The guarantee fees to be charged will be 1% in this case. The coverage will be for 60% and the cap of 7% limit on the overall guaranteed portfolio will remain. The claim procedure will be similar as with the portfolio guarantees.

186. Wholesale guarantees will be offered for banks to lend to other financial institutions for on-lending. As with the individual guarantees, wholesale guarantees will also be decided by the Committee, the fees will be 1% and the coverage 60% with a 7% cap.

187. **Insurance.** An additional risk management tool that can reduce the vulnerability of smallholders and VC players unlocking access to credit is the possibility of accessing insurance services. Smallholders and agricultural producers in Swaziland are exposed to climate risk. Periodic droughts are becoming longer and rainfall events becoming more extreme. Unpredictable climate events and variability are among key sources of (perceived or real) risk in investment proposals, which contribute to make financial service providers reluctant to lend for agricultural activities. Access to insurance can contribute to enhance smallholders' credit worthiness.

188. In Swaziland, despite the insurance sector picking up after its liberalisation in 2005, with currently are. six long-term and three short-term insurers alongside one composite insurer - the former state-owned monopoly Swazi Royal Insurance Company, the market for agricultural insurance is not yet developed. Insurance companies are mainly offering services such as home insurance, health insurance, car insurance, property insurance, construction insurance, life insurance and funeral schemes.

189. FINCLUDE will promote a study to assess the relevance and feasibility of launching an agricultural insurance (i.e. index based) scheme for the project target group engaged in the identified VCs (see TOR attached to Appendix 5) and to support the broader GOS's rural and agricultural development strategy in the project. If results are positive, a scheme could be piloted and launched with support from the climate financier (Component 3).

d) Capacity Enhancement and Policy Development Facility (CEPD)

190. FINCLUDE will provide for a facility for capacity enhancement across all its activities pertaining to financial inclusion, including remittances. The project will be able to use this facility for any relevant technical support during implementation, including the following:

(a) assistance for the setup and operation of the FIRM;

(b) capacity enhancement for FIRM management, monitoring and audit;

(c) capacity development for financial intermediaries on rural MSME and smallholder lending, and value chains analysis and financing, including consideration of climate change on financial risks and mitigation;

(d) development of specific value chain financing and risk assessment manuals;

(e) policy support for the establishment of a 'small claims' judicial/extrajudicial process to speed up and make less expensive litigations in case of non-repayment for loans below SZL300.000;

(f) capacity for the design of new financial products more suitable to the needs of the rural MSMEs and the smallholders, including micro-insurance;

(g) assistance for the development and operation of the MFI, SCGs' strengthening and creation, support to Apexes, etc.;

(h) Relevant market research, thematic studies, sectoral assessment and analysis.

191. The CFI will prepare a semi-annual plan for activities under the CEPD (to be discussed on supervision and support missions). Subject to compliance with IFAD procurement policies, for extemporaneous CEPD activities of more than USD40,000, the CFI will forward relevant proposals to IFAD for no objection.

e) Remittances

192. In addition to the above, FINCLUDE will support CFI to investigate opportunities and progress action plans with the financial services industry to improve the flow, affordability and use of remittances for rural enterprise development, including where appropriate for investment in farm and non-farm micro-enterprises in the FINCLUDE cluster areas. CFI will handle a demand-side survey on remittances and migrant households embedded within the update of FinScope consumer survey to assess the preferences and needs of remittance senders and recipients and the gaps at the supply side and to provide a segmentation of migrant households. This knowledge will nurture the financial education and social mobilization activities availed in Component 1 activities. It will also support the pilot testing of products linked to remittance to cross-sell financial services to remittance recipients, with a particular attention given to the extension of the scope of services delivered and to the rural outreach of the partnering FSPs.

f) Partnerships to improve quality of credit demand on wider scale

193. FINCLUDE will collaborate with several external organizations and projects working to improve livelihoods of youth, women and rural people that share FINCLUDE's desire to improve access to financial service, especially credit for loans for productive investments. FINCLUDE's will support interested external partners to develop the capacities and approaches they need to be able to effectively raise the quality of demand for credit from their supported individuals, households and communities to the level at which they can successfully obtain and dully repay loans secured under the FIRM. In support of this, FINCLUDE will:

(a) Provide technical advice and coaching to these organisations on techniques to strengthen the quality of credit demand, in particular appropriate practical methods for business skills training and mentoring of individuals, MSMEs, producer groups and clusters to achieve the required level of quality of credit demand.

(b) Facilitate the linkages to the FIs for the supported individuals and MSMEs once they are able to demonstrate that they can meet the required level of quality of credit demand.

194. For farm-based MSMEs and investments, FINCLUDE will establish partnerships on this with SNAU, Swaziland Farmers Cooperatives Union (SWAFCU), Women Farmer Foundation (WFF), SMLP, YEF, RDF and the EU's High Value Crop project. For youth and women focused organizations, covering both farm and non-farm opportunities, partnerships will be explored with organizations such as Junior Achievement (JA) and Africa Works among others.

Component 3: Climate Resilient Decision Making and Investment

195. FINCLUDE, through its core activities in Component 1 and 2, will make great strides in improving financial inclusion thereby removing a key barrier to climate adaptation. Yet beyond connecting producers to financial services and facilitating cluster development, there are specific interventions that can enhance the overall impact of the project in terms of climate resilience, by building knowledge of the various actors involved and introducing a facility to boost public and private investments that reduce climate risks. These activities, for which funding will be sought from a climate

financier, are presented in this component but are tightly linked to the activities in the other two components.

196. The climate resilience approach taken in this project is: (i) *user-centric and pragmatic*, taking the key actors and their direct needs as a starting point; (ii) *targeted* at key decision points that have maximum leverage; and (iii) *simple and straightforward* so that climate change can become a practical consideration for those who need to deal with it on the ground, rather than a doom and gloom scenario.

197. The activities described below will be described in more detail in the Climate Finance design documents.

3a) Climate information services

198. The intended outcome of this set of activities is that producers, traders and bankers use climate information to manage their business. Emerging from a traditional and technical discipline, climate information products and most notably weather forecasts in Swaziland have had limited impact on rural Swazi producers and on the financial system. FINCLUDE will help the Swaziland Meteorological Services to transform this to a practice of user-driven climate information *services*, starting from a thorough assessment of users' climate information needs.

199. Based on the outcome of this user needs assessment and bringing in best practices from abroad, a strategy for climate information services will be developed. Such services will consist of the appropriate dissemination method (e.g. radio, mobile on-demand, internet, network of informants), content (e.g. agro-meteorological bulletins), format and timing; and suiting various user needs (e.g. information on best planting time, early warning for drought or frost). For bankers, the focus of the services will be more on long-term climate trends and how they translate into risks for enterprises. The project will furthermore make investments in underlying weather and climate data collection and processing needs as identified in the climate information service strategy. A central aspect of the strategy will be financial sustainability, including identifying opportunities for revenue creation to cover operational costs.

200. The project will subsequently train the prospective users of climate information services, to help them in incorporate the information into their decision-making process. For farmers/producers, this training will be based on the Participatory Integrated Climate Services for Agriculture (PICSA[44]) approach. This will include sessions on historical climatic trends and analysis of seasonal forecasts, its impacts on agricultural production, and alternative and innovative solutions to cope with current climate and weather conditions. To validate their choice of production, farmers will be supported to compare their chosen product to several appropriate alternative options (crops, livestock and other livelihoods) evaluated through a simple cost benefit analysis. The objective being that farmers make climate informed investment choices, factoring in 'no regret' adaptations into their investment plans. The PICSA approach will be customized to bring in a strong financing angle as part of the investment choices discussion, and train the farmers on using the newly developed climate information services as part of their business as usual, i.e. consulting the seasonal forecast to decide which crops to grow and when to plant.

201. Implementation arrangements for these climate adaptation modules will include ToT training for all the Cluster Development Teams and officers and representative of Swaziland Meteorological Service, National Disaster Management Agency, local extension services and local institutions and farmers organisations.

[44] https://ccafs.cgiar.org/publications/participatory-integrated-climate-services-agriculture-picsa-field-manual#.WXOJYumQzIx

3b) Climate Investment Facility

202. The purpose of the Climate Investment Facility is to leverage investments in climate resilience by producers, traders and government. The Facility will be anchored in the Cluster Development Process and will target both public as well as private investments.

203. Activities would aim at leveraging both private as well as public investment into productive assets or knowledge that decrease vulnerability to climate change, as identified through the cluster meetings. This would include climate resilient infrastructure such as water storage, water-efficient irrigation, post-harvest structures; R&D on climate resilient varieties and technologies; and pilot circular economy enterprises that contribute to climate resilient landscapes.

204. The Climate Investment Facility will be delivered in tandem with the Sector Development Facility described in Component 1. Public climate investments will be awarded to proposals that effectively integrate climate change adaptation and leverage other funding sources (this could be core public funds such as the RDF, other donor-funded projects or private investment). An initial financing leverage target ratio of 1:1 across the portfolio will be used and may be adjusted upward or downward based on experience with the first batch of proposals.

205. The facility will primarily co-finance public good and semi-public good investments. Support to private investments linked to clusters will be restricted to support the first movers or early adopters of climate-smart technologies and practices. Initially, this will be in the form of (i) training on climate-smart agricultural practices, (ii) co-financing to pilot climate risk-reducing and/or adaptive measures with potential for scaling-up, (iii) learning visits on climate smart practices. As the project progresses and the various activities under this project such as climate-informed decision-making gain traction, a diversification of financial instruments will be considered. This could be in the form of equity, debt or risk-based instruments such as a climate-specific credit guarantee. Care will be taken to ensure the financial instruments used to support private investment do not create significant market distortions that may acts as barriers to wider private replication of successful investments. Detailed implementation guidelines for the Climate Investment Facility will be developed in conjunction with the Sector Development Facility.

3c) Improving access to climate finance

206. The intended outcome of this set of activities is to enable long-term access to climate finance for Swazi organisations.

207. In the first year, the project will organize a Climate Finance Fair. This 2-day event will bring various stakeholders in the climate financing area to Swaziland to discuss international best practices and identify the most promising pathways in the Swazi context. The focus of the Fair will be on innovative ways to bring climate finance to private end users without disturbing local financial markets (“blended finance”). The fair will include both interactive presentations on the lessons learned from other countries, as well as facilitated working sessions to develop project ideas for Swaziland. It will also include matchmaking sessions with climate financiers. Furthermore, it will address issues related to accreditation of financial institutions including environment, social and governance (ESG) best practice and tools for implementation.

208. International best practices to be explored during the Climate Finance Fair include public-private partnerships, innovative financial structures where climate funds can absorb specific risks through junior shares, and bundled instruments where climate finance can be used for technical assistance facilities. Practitioners with experience running such schemes will be invited to give first-hand experiences.

209. Using the inputs from the Fair, the project will lead the development of a climate finance strategy, containing a roadmap for climate finance including targets for external resource mobilization and domestic climate financing as well as a shortlist of flagship projects to be developed. The strategy will be drafted and validated through a working group of national stakeholders on climate financing convened for this purpose.

D. Lessons learned and adherence to IFAD policies

210. IFAD has extensive experience in Swaziland through supporting 5 projects since 1983. The project supervision documents and above all the Project Completion Reports (PCRs) and experiences from similar projects elsewhere have provided valuable lessons that have shaped the design of FINCLUDE. Particularly valuable have been the lessons from the recently concluded. More details are found under Appendix 3.

Lessons learned

211. Prior to the implementation of the RFEDP, support for MSMEs in Swaziland was limited, with less than ideal coordination and harmonization, both within and between government agencies and in the non-profit/development community. The RFEDP brought many existing and new developmental efforts together and, in concert with a variety of stakeholders, demonstrated the need for a vibrant MSME sector and sustainable inclusive finance sector. Amongst its main achievements, the programme positively elevated the perceived role of MSMEs in the Swazi economy generally, and in rural areas specifically, alongside the wide recognition of the vital need for an integrating organization, such as the Centre for Financial Inclusion, to play a critical brokering and facilitation role among the various actors in the rural finance and MSME development sectors.

212. While the RFEDP was relevant, its design underestimated the complexity of linking MSMEs with finance, especially in terms of the need to work on improving the quality of credit demand in parallel to addressing supply side constraints.

213. One of RFEDP's clear strengths was its ability to convene and facilitate inclusive finance and enterprise development stakeholder activities. This is something that is also essential to FINCLUDE. Under RFEDP, the MFU also took on a valued advisory role as well. These functions served the programme in the policy and regulatory arenas, giving it credibility to advance key MSME policy/ strategy frameworks with the government but also with the private financial institutions.

214. The RFEDP's convening and facilitation capacity was well-suited to support the substantial inclusive finance policy and strategy groundwork undertaken by the programme. RFEDP became the primary organizer/promoter for advancing inclusive finance along good practice lines, and ultimately became the centre for sector knowledge. And while RFEDP's target outcomes in this area were far from achieved, RFEDP identified key challenges to the development of the sector, while establishing working dialogues with sector stakeholders to collectively define gaps and needs for improving access to financial services in rural areas.

215. Important lessons from RFEDP were that:

(a) It is essential to address issues of the quality of credit demand alongside resolving supply-side constraints, in particular the need to go beyond simple entrepreneurship training and provide focused but sustained mentoring of MSMEs through their investment cycle.

(b) Targeting strategies and target groups need to be clearly defined and performance on targeting and impacts monitored closely through reliable M&E systems.

(c) Private-sector oriented programming must have comprehensive and ongoing market intelligence. Programme implementation must be informed by a comprehensive understanding of the need, interests, motivations, commitments, and capacity of private sector partners and target beneficiaries and should ideally include mechanisms to embed them in the core of the implementation processes.

(d) Mechanisms to support market linkage not only need to consider getting products to market, but must facilitate an ongoing two way flow of information between buyers and producers to ensure that products and services meet market demands in terms of quality, quantity, consistency, availability and relevance (innovation). In addition, such mechanism should seek to foster trust that can sustain mutual beneficial long term commercial relationships.

(e) The time required to push financial sector policy and regulations through to completion as well as stimulate changes in FI behaviours and practices can be very substantial and should be allowed for in implementation planning.

216. RFEDP did not have a comprehensive, evidence-based assessment of the financial sector's capacity and/or interest to expand access to appropriate financial products/services in rural areas. Lack of in-depth sector knowledge, particularly on the supply side, led to underestimating the need for credit risk coverage for commercial banks, and to overestimating role for RFEDP in mobile/electronic banking. This lack of in-depth sector knowledge and data inhibited RFEDP deploying appropriate measures to address FI internal barriers to participation. Such data gaps must be addressed as a starting point for FINCLUDE under Component 2.

217. In terms of operational issues with project delivery in Swaziland, the following lessons are relevant:

(a) Start-up in Swaziland and in ESA more broadly has often been slow due to the lengthy approval processes of the project at the cabinet and, above all, for the time taken to recruit a new senior PMU team and establish adequate financial/procurement systems Similarly, market development aspects of past project have been weak - in part due to poor design but also recruitment of staff without genuine business/market experience. M&E has also often been weak.

The fact that the FINCLUDE design has been done in the close collaboration both at the high level authorities of the MoF and MoA and with the technical teams, provides a favourable environment for the quick approval process of the project at national instances. By maintaining the experienced and solid PMU from RFEDP to lead FINCLUDE both the management and FM start-up issues should not occur. Also, the advance recruitment of the two component Team Leaders is designed to underpin a rapid and good quality start. There is a need to ensure professional recruitment of the right people into these senior roles, with credible business/market/rural finance experience.

(b) The RFEDP project developed a strong M&E and KM system but only after the MTR when the current management team entered. The portfolio and the staffing and TA for FINCLUDE reflects the high priority of these areas, but it should also be a focus for IFAD implementation support and supervision, especially during the critical first 18 months.

Lessons on inclusive cluster and value chain development and financing

218. Importantly, FINCLUDE must also learn from lessons drawn from experience in other countries on similar approaches on inclusive cluster and value chain development. Lessons drawn from the IFAD Asia's flagship inclusive market and cluster development project, the 'High Value Agriculture Project' in Nepal, through recent external review (by ADB) and the design team for its second phase led to the following key conclusions. Additional lessons are provided in Appendix 3.

219. **It is possible to have effective market-oriented development investments that are also inclusive**, by selecting value chains with clear opportunities and using a deliberately inclusive implementation approach. Evidence for this is seen in the recent review of HVAP which concluded that "HVAP has been remarkably successful in including poor and marginalised households into the value chains it has supported", as demonstrated in the charts below. Inclusion and pro-poor targeting has been effective on two critical dimensions:

(a) **Participation rate of poor households averaged 91%** for the project and was high across all commodities; and

(b) **Relative increases in income are higher or comparable for poor households than non-poor households in 5 of the 6 commodities**[45] for which data is available.

Figure 6: Lessons learned: HVAP Participation rates of poor households by commodity

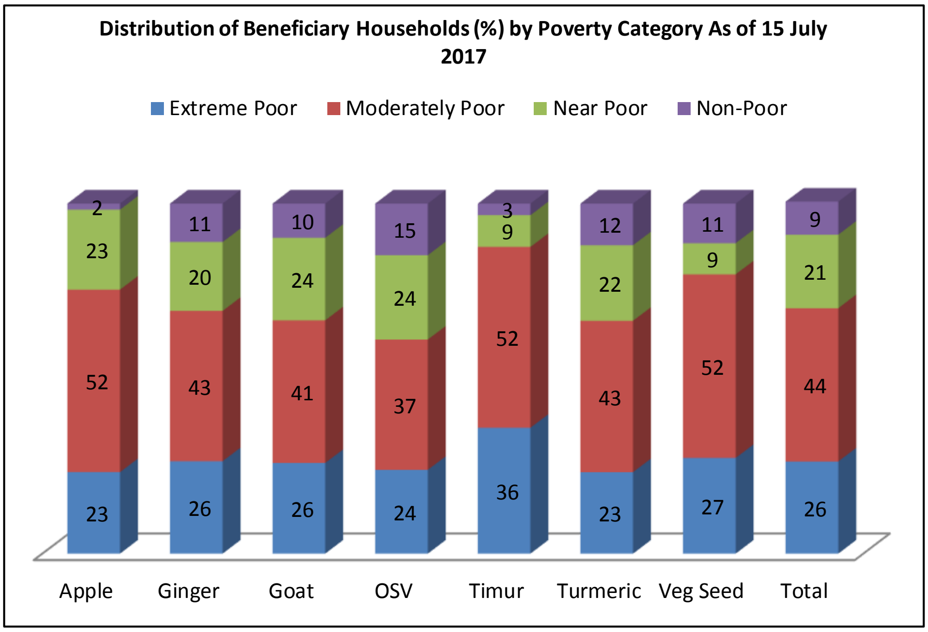


Table 5: Lesson learned: evidence on HVAP's highly effective inclusion of poor and marginalized households

	Households engaged (@ July 2017)		**Change in net income over baseline (%)** (@ July 2015)				
Commodity	Total HH	% poor HH	All House-holds (Jul 2017)	A Extreme Poor	B Moderate Poor	C Near Poor	D Non-Poor
Off season vegetable (OSV)	3,612	85	295	306%	221%	141%	226%
Apple	1,953	98	359	374%	254%	260%	116%
Goat	3,064	90	80	**72%**	**81%**	**293%**	**317%**
Turmeric	1,800	88	280	662%	447%	175%	-61%
Ginger	1,382	89	127	56%	143%	30%	120%
Timur (a spice)	2,346	97	118	60%	85%	20%	112%
Veg Seeds	435	89	298	Data not available			
Total	**14582**	**91**	**126**	**157%**	**139%**	**192%**	**127%**
				←		**Poor**	**Non-poor**

220. **Sustained mentoring is essential both for supporting farmers to make the successful transition** into profitable small-scale farm enterprises but also to secure access to loans from banks and other FIs. Such mentoring is needed at different level, depending on the structure of the industry – of individual smallholders/micro enterprise, producer groups and cluster/supply chains. It is notable that the same message was repeatedly given by the banks in Swaziland as a pre-requisite for them to be able to increase rural lending.

221. **For inclusive value chain development to be achieved, the investment required must be feasible for poorer households.** If the investment route to become a viable and competitive producer of a given product is too expensive, too "lumpy" (i.e. needing big individual investments that

[45] Only one commodity, goats, showed a clear non-poor bias. This was identified during project implementation and the failure to achieve preferential impacts for poor households was primarily the result of recommended investment pathways based on large initial investments in goat sheds which were unaffordable to most households. Following identification of this problem, alternative affordable investment pathways were then promoted based on initial expansion of fodder production and some additional breeding animals with deferral of expensive investments until later on.

cannot be broken down into affordable stages), too risky or too technically complex then it is unlikely to be accessible for the majority of average or poorer households and so the objective of inclusive growth are unlikely to be achieved.

222. **Agriculture value chain development should be led by the private sector**, namely by key actors in the supply chain from buyers to producers but not government agencies.

223. **Strong producer groups capable of being a reliable player in the supply chain are important but cannot be built top down.**

224. **Business literacy and experience creates greater impacts** and is a critical factor in value chain development. Most small farmers have little experience with formal commerce and financial management, but after projects build their capacity, they respond to commercial opportunities.

225. **Initial value chain development at producer level is typically driven by middle income farmers** who can more easily bear risks and meet market requirements on quality and quantity, but often draws in poor household once perceived risks are mollified and transaction costs reduced.

226. **The focus on cluster-centred activities at the production level is very effective**; both in facilitating market linkages and should provide a similar foundation to develop more sustainable service provision to farmers and producer organisations.

227. **Market-based service delivery is essential for sustainable market oriented agricultural sectors, but making the transition from free public-led service is a challenging process requiring high level commitment from MoA** and public services to reposition their role into enabling and fostering good market-oriented service markets.

228. **Operationally, genuine business acumen in senior value chain/market staff is vital** alongside an ability to understand concerns and interest of both farmers and business.

Adherence to IFAD polices

229. The FINCLUDE is fully aligned with the IFAD's strategic framework 2016-2025. The programme aims to enable Swazi smallholders and micro-entrepreneurs to become commercially competitive and more resilient. This will be accomplished by increasing returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through efficient public sector investment.

230. FINCLUDE will contribute to the first 2 strategic objectives of the IFAD strategic framework 2016-2025 namely: i) Increase poor rural people's productive capacities; and ii) Increase poor rural people's benefits from market participation.

231. FINCLUDE's design is also fully in accordance with IFAD's targeting policy as detailed in 'Reaching the Rural Poor' (2008). The target groups have been profiled and beneficiary groups for proposed project activities identified. The completed targeting checklist is included as an annex to Appendix 2. On gender, FINCLUDE is guided by the three succinct precepts set out in the IFAD Policy on gender equality and women's empowerment (2012): to promote economic empowerment to enable rural women and men to participate in and benefit from profitable economic activities; enable women and men to have equal voice and influence in rural institutions and organizations; and achieve a more equitable balance in workloads and in the sharing of economic and social benefits between women and men.

232. The new Results and Impact Management System (RIMS), core indicators have been included under the log frame and the M&E system. These indicators will feed into IFAD's Operational Results Management System (ORMS).

233. FINCLUDE is fully compliant with the IFAD rural enterprise policy as it intends to support the development of more formalized agribusiness linkages for smallholders and micro entrepreneurs for better income generation and resilient links to markets.

III. Project implementation

A. Approach

234. FINCLUDE runs for six years. To maximize sustainability and scaling-up, it adopts a market-driven approach and strengthens existing institutions rather than building parallel ones. It uses inclusive cluster development methods which have been shown to be highly effective in profitably linking poor farmers to markets, for example in Nepal, combined with expansion of market-oriented rural financial and non-financial services rather than subsidy and grant-led substitution of these services. At the community level, FINCLUDE adopts proven approaches including: peer-led business skills and financial training; household methodologies based on the respected Gender Action Learning System (GALS), the CGIAR-developed Participatory Integrated Climate Services for Agriculture (PICSA). There is also an intensive, structured approach to institutional capacity building embedded throughout FINCLUDE.

Context

235. The starting point to the implementation arrangements is that CFI has demonstrated effective project leadership and management at the overall project level for the previous RFEDP, including sound financial management and has built a high quality but small team. CFI also has the mandate and capacity to lead the delivery of all activities related to Component 2. At the same time, CFI has limited experience of inclusive economic cluster development. The economic development aspects of RFEDP delivered less visible results and elements of M&E, targeting and procurement need to be strengthened.

236. For implementation of the inclusive cluster development approach under Component 1, an overriding consideration is that critical elements of the FINCLUDE approach are substantively different from agriculture development practices widely practiced in the country to date. The FINCLUDE design team identified only a very small number of organizations that are applying similar thinking in practices:

(a) one private organization already successfully implementing a substantively similar approach over the past 7 years in at least three different commodities (poultry (broilers), vegetables, honey) (Africa Works);

(b) at least two financial institutions adopting very similar thinking and approaches but from a financing perspective (Swazibank, Inhlanyelo Fund);

(c) one farmers organization that has recently initiated some similar pilot cluster development activities in pigs and vegetables but, as yet, still has very limited experience and capacity (SNAU).

237. Notwithstanding the achievements in the structured sugarcane sector, the design team has not found evidence that any of the state enterprises (SWADE, NAMBoard, etc.) are successfully applying comparable inclusive cluster development approaches in other commodities.

238. It is also observed that there are many actors in the agricultural sector, with differing skills, experience and approaches but there is a clear lack of coordination leading to a highly fragmented and disjointed development effort.

Design principles

239. A central element of the approach is to create the right conditions for private individuals and enterprise to invest for themselves - be it in agriculture or other enterprises or careers. Accordingly, project resources are focused on active mentoring and facilitation of these private investments rather than on direct public investment in infrastructure, enterprise and other aspects.

240. A second important element stems from the recognition that social factors, in the household or community, can either magnify or undermine the economic benefits of the project. The project will

therefore complement its primary economic focus with targeted social mentoring activities to secure these benefits.

241. A third element, at the institutional level, is the need for FINCLUDE to establish a wide permanent capacity base among public and private organization in the core approaches being used by FINCLUDE, such that they become a mainstream way of working and continue well after the formal end of the project.

242. Agriculture clusters are the main economic focus of the project both to deliver direct impacts for rural households but also to demonstrate a systematic approach to inclusive cluster development that has the potential to be applied to a wider range of economic sectors to drive broader based growth, especially in rural area.

243. The design will adopt the following principles as a starting point when dealing with inclusive cluster development:

(a) Only commercially viable products and investments should be supported. This is essential for supported clusters to be able to sustain long-term competitiveness and genuine self-sufficiency after the project without direct or indirect public subsidies e.g. subsidized interest loans, subsidized fertilizer schemes or free extension services for market-oriented farmers.

(b) To attract IFAD support, clusters must have credible potential for inclusive growth, meaning that significant numbers of active but initially poorer farmers can also earn their fair share of profits from the growth of the cluster alongside other farmers and agribusinesses.

(c) Successful clusters and industries are living things that have to be grown and sustained by those involved and cannot be built according to a grand design. So, investment priorities should be driven by the private sector - by farmers, producer groups, SMEs, agribusinesses, commercial service providers - who are the ones who have to make the investments a success and carry the risk.

(d) From the start, the project should promote the development of the critical supporting service and input markets that are a vital part of sustaining a competitive industry alongside the primary clusters (farmers, MSMEs, agricultural cooperatives, agri-businesses).

(e) Climate resilience is a non-negotiable foundation of successful farming as a business, whether you are a smallholder or large estate. Considerations of climate adaptability and resilience must therefore be mainstreamed in all aspects of the project - for example in the business skills training to farmers, in knowledge of the technical service providers supporting farmers and in the screening process of the banks in assessing the viability of loan applications.

(f) The project should strive to catalyse systemic change and build enduring capacity (in individuals, institutions, networks, systems) while also delivering project results.

(g) For supply of rural finance, the project will build on the current financial service industry and its initiatives, addressing gaps and opportunities, rather than creating parallel competing structures and mechanisms.

(h) Where direct investment incentives are used to accelerate investments that address identified bottlenecks in the supported clusters, these investment incentives should be kept to a minimum to address the necessary additional risk of those "first movers" investing in innovative technologies, business models or services that are expected to be replicable by others (using mainstream financing) once seen to be a commercial success.

(i) Different product clusters and industries are of different size, character and current state of development around the country. The project must be flexible enough to respond appropriately to these different settings while maintaining a clear exit strategy for each cluster from the outset so they can graduate to be full independent and self-sustaining.

(j) The project should learn from its own experience but also from best practices elsewhere and refine and adapt approaches to work well in the real setting in Swaziland.

B. Organizational framework

244. Given the above context, the following organization framework is planned.

245. Ministry of Finance will be the Executing Agency and the Centre for Financial Inclusion (CFI) will be assigned as the Lead Implementing Agency (LIA) on behalf of MoF and will house a PMU embedded into its existing structures.

246. CFI will establish and directly manage a team with a mix of its own staff, hired professional contract staff and assigned staff from interested partner organizations (public and private) under the direct management of CFI, with assigned staff returning to their parent organizations afterward with enhanced capacity and confidence in the FINCLUDE approach. This is the preferred arrangement in order to build permanent capacity in a wide base of organizations in the country.

247. Two alternative options were considered and rejected for the implementation arrangements for the project activities:

(a) Hire a fully dedicated contract team within the CFI to deliver Component 1 for the life of the project. This option provides the simplest management arrangements but risks leaving little wider institutional capacity beyond the CFI behind after the project.

(b) Delegate/sub-contract discreet components/sub-components of the project to selected public or private implementing agencies. This option is not considered feasible given the lack of capacity in the proposed approach.

248. Staff from at least five implementing partners are expected to be assigned by their respective organizations to work as an integrated part of the project teams at central and regional levels. These staff will be coached in how to lead inclusive cluster development and market linkage activities. It is expected that they will take increasing leading roles in coordinating the activities in the cluster in the latter half of the project, after MTR, as their skills and confidence matures.

249. The implementing partners that will assign staff to the project team, from the start of the project, for capacity building purposes include:

(a) Ministry of Agriculture (MoA);

(b) Swaziland National Agricultural Union (SNAU);

(c) Ministry of Tinkhundla Administration and Development (MoTAD);

(d) Small Enterprise Development Company (SEDCO);

(e) Ministry of Tourism and Environmental Affairs (MoTEA) – subject to securing climate co-financing.

250. For MoA, staff will be drawn from its emerging agribusiness unit and extension service teams. For MoTAD the partnership will primarily be with the Community Development teams at central, regional and Tinkhundla levels (who also have a primary role in assessing and supporting the community development funds such as the RDF and the Community Poverty Reduction Fund). For SEDCO, it is likely to be from their core team including business coaches and for SNAU it is also expected to be under the scope of their core team, including their capacity building mandate for farmers' organizations and the linkages with the markets. For MoTEA, this will include staff of the

Swazi Meteorological Service among others with further the details of the operational partnership will be agreed upon as part of the finalization of the climate co-financing request.

251. In addition to the four named implementing partners, FINCLUDE will be open to other organisations from the private and public sectors to second their staff into the project to develop their capacities on a similar arrangement, for example from organizations such as Swaziland Farmers Cooperatives Union (SWAFCU), Junior Achievement (JA), Women Farmer Foundation (WFF), Swaziland National Youth Council (SNYC) and Lulote (a private BDS provider, www.lulote.co.sz).

252. Staff assigned from the four core implementing partners should ideally be assigned for a minimum 24 months and preferably longer. For staff seconded from additional organisations the minimum secondment should be for a period of 12 months. Assigned staff will be paid a stipend by the project with their salary costs continued to be paid by their employer. In the case of SNAU, the project will in addition contribute towards the costs of the salary for the assigned staff.

253. It is recognized that some staff may only be able to work part time in the FINCLUDE team as they will continue to have other responsibilities. FINCLUDE will attempt to accommodate this to ensure capacity is broadly developed. In many cases, however, it is expected that FINCLUDE activities may actively facilitate their core roles, for example with the Community Development teams of MoTAD and the agribusiness and extension staff of MoA. The effectiveness of these arrangements will be monitored closely during the initial implementation and adjustments made to address any issues as they emerge.

254. In addition to the specific staff assigned to be part of the core project team, the wider staff of the implementing partners will be actively encouraged to participate in relevant project activities in their geographical or technical area of responsibility. For example:

(a) MoA technical and extension staff from among the 17 Rural Development Areas (RDAs) will be actively encouraged to participate in multi-stakeholder cluster meetings and follow-up activities in the area as service providers and key supports of agriculture in their area. Examples of other engagement include these staff being actively consulted and invited to contribute to the cluster mapping as well as providing backstopping to local technical services providers supported by FINCLUDE in their area. Similarly, Community Development.

(b) MoTAD Community Development staff in the regional and Tinkhundla Centres will similarly be invited to actively participate in the multi-stakeholder processes in their area, closely co-ordinate with activities with the FINCLUDE Cluster Development team in each of the regions and actively facilitate links between RDF, FINCLUDE and local leadership structures in the Chiefdoms and Tinkhundla.

(c) SEDCO business coaches and other staff will also be encouraged to participate in the cluster development activities in their local area as an important provider of business development and support services to MSME.

255. This active engagement from teams from a wider range of organizations in the cluster development process will facilitate a common understanding of the specific opportunities and local constraints in each cluster. This will then be the foundation for deeper harmonization and coordination of the various support services and funding that each partner can offer, of which the resources within FINCLUDE are just part. This provides a practical mechanism for each organization to maximize the impact from its resources, raising its own performance as well as that of the wider set of partners and reducing duplication. Such coordination and maximization of combined impact is increasingly important in the current constrained fiscal conditions in the country.

256. Given the high prevalence of HIV/AIDS in the general population, the project will also support its own workplace programmes to raise awareness and share information in support of positive behavioural change among its own staff.

257. Implementation arrangements for Component 3, Climate Resilient Decision Making and Investment, will be further elaborated as part of the development of the climate finance design documents during 2018. Strategic partners for this component are expected to include the Ministry of Tourism and Environmental Affairs, including the Swaziland Meteorological Service, and the National Early Warning Unit under the Ministry of Agriculture.

258. Technical assistance is planned to be provided on several aspects including: cluster development, M&E system development; development and harmonization of the various databases and MIS systems; social mentoring; targeting; knowledge management and on activities under Component 2 particularly under the CEDP to be identified during implementation. These have been provided for in the project budgets.

259. For successful cluster development, it is vital to combine genuine business acumen in the Cluster Development team with the proven tools and techniques for cluster development, introduced via the TA. Accordingly:

(a) TA will be mobilized in a series of short inputs totalling approximately 12 person months delivered over the first 24-36 months with a strong focus on coaching and on-the-job support to the project teams and not as a substitute for the FINCLUDE team’s own capacity. This TA should be provided by an experienced manager with hands-on practical experience of implementing similar private-sector driven cluster development projects.

(b) Genuine business acumen is crucially important among the Cluster Coordinator and Senior Cluster Development Officer(s) with a proven track record and should be a critical characteristic sought during the recruitment process.

260. A Technical Working Group (TWG) on Climate Change will be established as a loosely structured reference group which will be regularly asked for a technical opinion on matters related to climate change. The group will comprise a mix of public and private actors. The TWG will meet occasionally and be invited to key events under Component 3, but moreover it will be asked to provide ad-hoc and non-binding advice on a regular but not necessarily structured basis. Apart from serving as guidance for the project, the TWG would offer an opportunity for various actors to showcase their knowledge and increase their chances of being contracted for the larger, time-consuming technical assistance opportunities arising from the project.

261. **Governance.** A Project Steering Committee shall be established to provided overall strategic direction and governance of the project. It will be chaired by the PS of the MoF made up of representatives of the MoA, MoTAD, SNAU, SEDCO, MoC, CBS; and other relevant organisations/ organisations working towards the achievement of Project objectives.

262. The SC and its members would be resource bodies for the project to allow the PMU to confront issues, debate constraints affecting the project, reviewing project approaches, strategies. The Steering Committee will provide strategic guidance towards the achievement of Project objectives and contribute to the higher-level sector policy and strategic goals. The SC will also be responsible for review and approval of Annual Work Plans and Budgets, procurement plans and annual reports.

263. **PMU structure.** The project will be implemented through a decentralized structure with a small central team based in CFI and operational teams in each of the four region hubs. It is probable that the regional hub teams will be hosted, or with offices very near to, one of the main implementing partners in each region.

264. A FINCLUDE Senior Management Team will support the Project Director in the overall coordination and delivery of the project and be jointly accountable for its overall performance in addition to their technical areas of responsibility. The Senior Management Team will comprise: the CFI CEO will act the Project Director supported by a Project Manager, who will be one of the senior CFI core staff, and the contracted senior professionals as Coordinators and Deputy Coordinators for each of the three Components plus the Sociologist, CFI Finance Manager and Senior M&E KM expert for

the project. CFI core staff are expected to dedicate a minimum of approximately 75% of their time to the project.

265. The regional hub teams will be responsible for the integrated delivery of activities across all three components in their region – covering cluster development, rural finance and climate investment. Thus, the Cluster Development Officers, Cluster Mobilizers and Social Mentor Supervisors will need to be familiar and trained on all aspects of the project. Technical and professional coaching and backstopping of the regional hub team will by via the relevant senior staff of the Senior Management team.

266. **Rapid start-up and pre-launch plan.** The CFI team provides a strong foundation on which to build the FINCLUDE team. A pre-launch plan of activities, with costs, will be developed jointly by CFI and the IFAD mission team in early 2018.

267. The pre-launch plan costs will form part of FINCLUDE budgets. Subject to final agreement by MoF, the pre-launch cost will be pre-financed by GOS and then paid for via the IFAD loan under IFAD's retroactive financing mechanism.

268. A critical action will be the advance recruitment of the two Component Coordinators for Component 1 and 2, so they are in-post six month prior to expected date of project effectiveness and able to coordinate the pre-launch activities along with the existing CFI team.

C. Institutional capacity

269. Institutional capacity is a critical success factor in all projects and therefore always a critical risk to be carefully managed. This is especially true for FINCLUDE as it aspires to significantly raise the permanent capacity of its implementation partners and others in the applying best practices demonstrated in the project. While most of the key elements and approaches in the design are increasingly well proven elsewhere, many of them will be new to Swaziland. There is also a need for the PMU in particular to act as an agent of change, requiring particular strategic and operational skills. The factors call for a deliberate and systematic approach to institutional capacity building, to be championed by the project Steering Committee.

270. In terms of current capacities, the CFI will act as the PMU and was the well-regarded implementing unit of the previous IFAD funded RFEDP. It is a small, strong team that is well equipped to lead both the technical delivery of the project but equally the wider change processes, with strengths in both strategic and operation management. The key priority for the PMU is to increase the size of the team to cope with the workload of the new project, hence the advance recruitment of the two component team leaders around 6 months before effectiveness to lay the detailed groundwork before the project starts.

271. There is also strong commitment at a senior level from all the implementing partners to FINLUDE, including using at a mechanism to further strengthen the capacities of their own teams.

272. FINCLUDE will therefore adopt an evidence-based capacity building process among its implementing partners and teams led by the project Steering Committee. This will also be a key focus of the knowledge management activities of the project and include the following elements.

273. At the outset, a skills gap and attitude analysis relevant to FINCLUDE will be conducted jointly between the PMU with each implementing partner of their proposed operational teams, including a human resources policy and practice review. This will be complemented by a mapping of key stakeholders. These reviews will be led by the project Steering Committee and will be completed prior to project effectiveness. This is expected to cover the following teams: MOA agribusiness unit and extension teams, MOTAD Community Development teams, SEDCO small business coaches, SNAU capacity development and project officers, etc.

274. The findings of these reviews will then drive the development of capacity building plans under FINCLUDE, both overall and specific to each partner institution. The capacity building plans will have

clearly defined milestones, actions and budgets that we be included in the AWPB. Progress against the capacity building plans will be reviewed periodically by the SC.

275. Knowledge management in FINCLUDE will play a central role in supporting this process. KM will have a strong focus on documenting best practices as well as positive and negative lessons from FINCLUDE implementation experience, supported by reliable evidence and analysis. A specific series of knowledge products on these best practices and lessons will be prepared for members of the steering committee, oriented towards understanding why, where and how such practices can be adopted by their organizations in support of their own core mandate.

276. The KM agenda itself will be guided by the capacity building plans and scaling-up agenda of the project. The wider adoption of FINCLUDE's documented best practices will be an important measure of its success in achieving one of its main outcomes – *Outcome 3 – Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives*. Key elements of the approach to be documented in KM products and promoted for wider adoption by other organizations are expected to include, inter alia: improved business skills and financial literacy training; multi-stakeholder cluster meetings and associated processes for inclusive cluster development; producer groups and MSME mentoring; market-based service market development; social mentoring and household methodologies; use of peer mentors for business skills, social mentoring and other skills training delivery; PICSA climate information usage by smallholders; promotion of private smallholder investment via savings and credit rather than grants.

277. To support this capacity building process, frequent, regular but flexible international TA has been planned over the first 3 years to provide flexible on-the-job coaching of the various teams as they mature. The timing and focus of the TA inputs will be guided by the capacity building plans and KM processes. As such, short, regular TA input is preferred to longer term resident TA, so that there is a clearer focus on building the capacity of the team rather than substituting capacity with TA.

278. Around the end of Year 2, the SC will lead a review of experience to-date and an exercise to map credible options in terms of the exit strategy for key roles of the project. This should include a candid assessment of which institutions, both within and outside government, have the credible interest, potential and resources to be able to perform key roles of the project after its completion. Having multiple institutions with the capacity and interest to deliver key roles may also be beneficial to the building sustainable permanent capacity. This assessment will then drive the development of the project exit strategy, with clear milestones, to be led by the SC and will include adjustments to the KM and capacity building activities, as necessary. Managing progress against the exit strategy and its milestones will then become a regular task of the SC, supported by the PMU. Three key roles of the project that are expected to need to continue in some form after the project and be covered in the exit strategy include: rural finance and financial inclusion facilitation; inclusive economic cluster development, and; public good investment coordination.

279. Additionally, for service market capacity, with support of FAO an initial analysis of demand and supply of non–financial services (Market-oriented services) was conducted during design to assess the market service system (public and private) and identify potential service providers to support project implementation. This initial work will be elaborated further in the early stages of the project and will inform additional capacity building plans and other activities in the project, not least related to further support to MOA in building the capacities needed to implement its planned new pluralist extension strategy. FINCLUDE will collaborate closely with FAO on this, given FAOs comparative strengths in these aspects and involvement with MOA in developing the new extension strategy. The strategy to systematically conduct a thorough analysis of demand and supply of market-oriented services (MOS) using the MOS methodology during the design process/early implementation, is part of a broader partnership between IFAD and FAO and will be also tested in other countries.

280. Institutional capacity of IFAD's Swazi partners is not only a priority for FINCLUDE but also of the wider IFAD country programme. FINCLUDE will therefore actively contribute to and support further

efforts by the IFAD country programme and GoS to provide a strategy focus and practical actions on these vital issues.

D. External coordination and partnerships

281. The following important external partnerships are now planned:

(a) SMLP/CSARL: It has been agreed that FINCLUDE and SMLP will move to harmonize their approaches to market linkages and cluster development. A key driver for this is the need to have more sustained mentoring of individual farmers, producer groups and at cluster level as an enabler for banks to be willing to consider providing finance to farmers for investment. If the harmonization of approaches can be achieved, then FINCLUDE will be able to extend activities under its Rural Financial Services component to also cover relevant beneficiaries under SMLP. IFAD will support both projects in this process and there will be ongoing close collaboration between the two projects during implementation.

(b) Youth Enterprise Fund is being relaunched on a stronger footing. FINCLUDE is expected to collaborate closely with YEF as there is a significant overlap in their target clientele. YEF is able to provide non-collateral lending to youth that may otherwise find difficult to secure from banks, even under the 'FIRM' risk instrument. Conversely, FINCLUDE will provide vital mentoring of youth as they invest in farm and non-farm enterprise. There is therefore strong mutual complementarity between FINCLUDE and YEF and the management of both are already collaborating, with CFI supporting YEF to develop its new business model. (see Component 2)

(c) World Vision: It is expected that FINCLUDE will collaborate with World Vision in several areas related to savings and credit groups. (See Component 2)

282. In addition, the EU is the other major donor in the agricultural sector alongside IFAD. The CFI and FINCLUDE will continue to explore opportunities to collaborate with the EU High Value Crop project, among others. In particular it will seek to jointly pilot opening up the FIRM to be able to support loan financing of vegetable farmers in 1-2 irrigation schemes under the EU High Value Crop project to test offering loans instead of the EU's planned 70% investment grants with the necessary introduction of the mentoring processes deemed essential by the banks. This is similar to the arrangements planned for farmers in SMLP supported clusters.

283. In the case of NAMBoard, it will be invited to participate in the multi-stakeholder cluster meetings and associated processes as one among several buyers (e.g. in the same way Swazi Meat Industries will be invited to participate in relevant commodity clusters as an important buyer) to ensure FINCLUDE is able to build and sustain the essential position and reputation as a neutral honest broker, trusted equally by farmers and businesses in the cluster. However, given its recognized potential conflict of interest as both regulator and competitor, it may not be feasible for NAMBoard to have a wider role in the project at this stage.

E. Mobilization and Targeting

284. FINCLUDE will promote a generic approach to mobilization and targeting that at the same time promotes understanding of specific local circumstances and practices, and empowers local groups in each cluster targeted to make decisions on how to best ensure social inclusion in line with project design, effective participation and transparency towards the achievement of project results.

285. Mobilization will be carried out on a local basis, as cluster areas are identified along with the driving commodity. Once this has been determined, FINCLUDE will liaise with relevant local authorities at chiefdom level, to bring together a representative group with equitable participation of women, men and youth, to assess the specific situation of women and youth particularly in the cluster, determine opportunities and obstacles that need to be addressed for effective participation and achievement of expected results.

286. Presentation of local assessments along with project information to Chiefdom authorities will seek to create synergies (and in so far as possible align) Chiefdom Development Plans and project interventions, obtain local buy in and get Chiefdom authorities on board to address issues such as access to land to women and youth. On this basis, the details of the targeting strategies will be spelled out for the cluster and agreed with local authorities.

287. FINCLUDE experts will work with local youth to identify and test key messages and channels best suited to reach out to male and female youth of different ages (18-24 and 25-35) in relation to the project.

288. Information on the project will be disseminated in close coordination with the Tindkundla and Chiefdom authorities (including a specific communication campaign directed to youth, including information related to project objectives, areas of intervention, targeting rates foreseen, criteria for participation, selection process, dissemination of results and grievance mechanism.

289. **Beneficiary selection.** Following mobilization, individuals will be asked to submit their applications for participation in the project in line with agreed eligibility criteria, within specific timeframes, in previously notified easy to reach locations within their villages. Local Committees will be identified to assess and approve applications received in each community targeted in the cluster. The participation of local representatives, including representatives of village leaders, men, women and youth, together with FINCLUDE staff, will be important to ensure inclusive participation and transparency. The list of selected beneficiaries will be announced publicly and posted in visible locations within communities. Once announced, beneficiaries will be asked to constitute groups of approximately 15-25 people (in year one) in line with local preferences (mixed groups, youth specific groups, gender-segregated groups.

F. Planning, M&E, learning and knowledge management

Planning

290. Planning processes and schedules within FINCLUDE will be harmonized with the mainstream planning process of CFI and MoF as much as possible.

291. **Annual Work Plan and Budget (AWPB):** During the final quarter of each financial year, the PMU will prepare the AWPB for the following year. This process should begin with a thorough, evidence- based performance review of the previous period and project to date, especially in reference to progress in achieving the project Development Objectives and Outcomes – as summarized in the Logical Framework and an analysis of lessons learned.

292. The AWPB will then be prepared by consolidating, from Component 1: (1) the plans for each cluster/commodity industry (driven by the priorities emerging from the ongoing MCMs), (2) planned business skills, social mentoring and producer group coaching activities. (3) plans for investments under the SDF; and from Component 2: (1) activities on the various database and information platforms being developed (2) specific plans associated with each of the FI partnerships (3) expected release of tranches to the FIRM and (4) planned capacity building activities in the sector.

293. The AWPB will be submitted by the Project Director and approved by MoF and then submitted to IFAD for ‘no objections’ approval no later than 60 days prior to the start of the financial year.

Monitoring and evaluation

294. FINCLUDE aspires to be a data rich project and a benchmark for others to follow in its evidence-based knowledge management by adopting a number of innovative techniques to dramatically improve the cost efficiency, speed and quality of data collection and analysis and the use of this analysis to drive project decisions and performance and inform evidence-based policy analysis and development processes.

295. FINCLUDE must also be a learning project – in that it not only sets out to have a direct impact on beneficiaries but also to test, refine and combine several different approaches and techniques to deliver real and lasting change. It must learn from itself and others' experiences and have the capacity to rapidly identify what is working well, why and then replicate this across its work. For example, some clusters may develop faster while others may struggle – it will be important firstly to acknowledge these differences and then use the evidence available to start to understand why this happening and, more importantly, how to take the best practice and make it the norm across the project.

296. In doing so, FINCLUDE must be willing to try and evaluate new innovative approaches (whether important operational details of field practice or big ideas). It must be willing to acknowledge where these have not worked as well as where they have.

297. In this regard, it is vitally important that the demand for relevant, reliable and timely data and insights comes from the very highest levels of the FINCLUDE leadership, especially within CFI and its parent Ministry. If there is clear and unequivocal demand for excellent, actionable M&E data and analysis from the senior leadership then all managers and project teams will place a high value on both gathering and using the data.

298. To facilitate a strong focus on managing for results, during the first year of implementation key performance targets from the log frame will be disaggregated and assigned by commodity by year for each of the five commodities based on the results of the final cluster mapping exercise to be completed at the start of the project. Responsibility for achieving the targets in each commodity will rest with named assigned commodity leads for each commodity (senior project staff). Progress against commodity-based target will be reviewed quarterly and form a key element of action and resource planning. This follows best practices in similar cluster development projects.

299. A key focus for the M&E will be to build a highly effective and efficient system that provides timely and reliable information for result-based management and decision-making on developments in each of the priority clusters and commodities so that the intervention plans can be managed for impacts.

300. The foundation of building FINCLUDE into a learning project are two-folds:

(a) Firstly, FINCLUDE must establish a 'best in class' M&E and MIS system – that is highly cost efficient and collects reliable, relevant and timely data which is routinely analysed and used to guide operational management decisions in the project.

(b) Secondly, FINCLUDE must design and deliver a highly organized and purposeful knowledge management plan that has clearly defined knowledge topics it focuses on and an organized and well-resourced system for developing evidence-rich knowledge products tailored to the topic and intended audiences.

301. Two core principles underpinning the FINCLUDE approach to M&E are that:

(a) Information has value but also has costs in its collection, analysis and distribution. FINCLUDE should seek to maximize the value of the information gathered, including to those individuals and businesses who provide it (e.g. by presenting back the findings), as well as limiting the costs associated with collection, analysis and distribution. In managing costs, this mean FINCLUDE should only collect what it needs, not what is possible, and do so in a deliberately cost and time efficient way using modern tools to do so.

(b) All data gathered from individual or household enterprises or MSME should be data which is valuable to the individual or enterprise to collect for themselves so they can make better informed decisions. They should therefore be happy to collect such information for their own benefit if provided with the knowledge and tools to make it easy to do so. This applies equally to farm/non-farm enterprise financial performance and production data but also elements of producer group capacity and maturity if the groups can see that this provides them with a roadmap to continue their own self-development.

For data collected from buyers and suppliers, the data requested should be data which every business should have readily to hand – basic data on volumes, prices, timing, origin or destination of sales and purchases.

302. The corollary of these principles is that the project should keep to an absolute minimum the data to be collected which is not of direct use to project beneficiaries but only to donors or government for other purposes.

303. Good data sits at the heart of FINCLUDE's M&E and knowledge approach. FINCLUDE will establish several databases and monitoring tools, including: credit monitoring tool, cluster/enterprise tracking system, financial services supply and demand database, the SCG database and the overall project MIS. To maximize the value of these systems, they should be designed within a clear overall information framework with appropriate interfaces between the systems to allow for enhanced analysis of multi-dimensional dataset draw from the different systems. Specialist TA should be mobilized at the start for the project to support this coordinated process. In the case of the cluster/enterprise tracking system, it is noted that CFI already has an initial system which can be reviewed against the experience from similar cluster development projects and improved/enhanced as necessary. For this, it is highly recommended that CFI should source TA input from the M&E advisor that developed and managed the M&E system in the High Value Agriculture Project in Nepal.

304. FINCLUDE will contract a full time MIS officer to anchor this data-driven M&E effort. The proposed FINCLUDE M&E approach is described in Appendix 6 and will fully meet the requirements of GoS and the new IFAD RIMS / Operational Results Management System.

Learning and knowledge management

305. FINCLUDE is part of a new generation of IFAD-supported projects dealing with inclusive market development and youth inclusion in farm and no farm enterprises development and the first of its kind in Swaziland. It is therefore explicitly intended to generate practical knowledge of what works (and what doesn't work), how to apply the successful approaches and to improve the capacity of various stakeholders. Effective and efficient learning, knowledge management and communication are therefore central to FINCLUDE's longer-term objectives.

306. A Knowledge Management and Communications (KMC) strategy will be developed and integrated into the management of FINCLUDE. It will play a large part in ensuring the project achieves its outcomes. The KMC Strategy will be coordinated by the PMU via the CFI Information and Research Officer.

307. FINCLUDE's knowledge management activities will be organized around a small number of clearly defined knowledge themes, that will be closely linked to the institutional capacity building processes and scaling-up agenda of the project (see above). KM products will document best practices of the project, as well as positive and negative experience, supported by reliable evidence and rigorous analysis. They will also seek to set-out why, where and how such practices could be adopted by specific institutions in support of their own respective core mandates.

308. Communication and dissemination strategies will target very specific audiences – especially Steering Committee members and the decision makers and senior managers of other key stakeholders in Swazi development. As part of the outreach and dissemination strategy, FINCLUDE will offer training, coaching and other support to organizations wanting to adopt its documented best practices. This training and support will be delivered by the FINCLUDE teams and, if needed, by additionally contracted resources using project funds, including from the CEPD and SDF as appropriate.

309. More generally, knowledge themes will serve three broad audiences:

(a) Private actors (farmers, producer groups, MSME, FIs) engaged in the supported clusters and commodity industry and support market.

(b) Public actors who support the development of the above industries, especially government and donors who finance major public investment programmes.

(c) Youth organizations focusing particularly on rural youth employment and economic empowerment.

310. Among the knowledge themes, a focus will be on FINCLUDE experience and lessons learned on rural youth inclusion in farm and no-farm enterprises development. A special attention will be put on young youth women cases.

311. Private sector knowledge themes of greatest use to the private actors will be developed in consultation with them during the first year of the project as clusters are mobilized. Example may include:

(a) Rural Finance market intelligence and insights;

(b) Rural Youth inclusion in agriculture through farm and no-farm enterprises development;

(c) Modern agriculture for smallholder, including youth – current technologies and practices;

(d) Emerging market opportunities and dynamics in high value agriculture, including opportunities arising from climate change;

(e) New approaches for rebranding and making agriculture more attractive for rural youth.

312. Public sector knowledge themes considered to be likely of immediate interest to senior leaders in GoS and project parties at national and sub national level include:

(a) Practical tools and techniques for real-world market linkage facilitation, including the relative roles of government, privates sector and other stakeholders;

(b) The evolving role of government in private sector service market development;

(c) Practical tools and approaches to incorporate considerations of social inclusiveness and climate resilience into market-oriented agricultural development;

(d) Rural cluster development practice – how to do it;

(e) Integrating climate resilience into private-sector development processes in an efficient and effective manner;

(f) Peer to peer processes – potentials and limitations;

(g) Local apprenticeships mechanism: results, impact and prospects for young youth employment – including learning from other successful schemes such as the Future Farmers[46] agricultural apprenticeship programme in South Africa;

(h) Linking financing and inclusive cluster development;

(i) Creating data rich environments for more efficient public and private investment;

(j) Service market development if competitive smallholder-based agricultural clusters;

(k) Benchmarking the cost effectiveness of alternative approaches to agriculture sector development – comparing FINCLUDE's private investment led approach with other subsidy and grant led support programmes.

313. FINCLUDE will contract one full time Knowledge Management, M&E and Communications specialist to coordinate and lead the delivery of the project knowledge management and communications strategies and associated action plans. Provision will also be made for key staff to undertake a study tour to another leading project on inclusive cluster development and also separately on social mentoring processes.

[46] http://futurefarmersfoundation.com/

G. Financial management, procurement and governance

314. **Financial Management:** The Lead Implementing Agency (LIA) on behalf of MoF will be the Centre for Financial Inclusion (CFI) formally Micro Finance Unit (MFU) being FINCLUDE's PMU. CFI is a semi-autonomous body under the auspices of the Ministry of Finance (MoF); CFI's mandate is to facilitate access to financial services for micro-entrepreneurs and the un-banked population through creating an enabling environment for the sector. The Unit plays a facilitative role through its engagement with the financial regulators, policy-makers and the financial sector in the implementation of the country's National Financial Inclusion Agenda.

315. CFI has been the LIA for the IFAD financed Rural Finance Enterprise Development Programme (RFEDP) whose closing date was 31 March 2017. RFEDP financial management was done by well-qualified finance staff, implemented Sun System accounting software and its overall financial management was rated satisfactory.

316. Accounting will be based on the existing arrangements at CFI having been developed during the implementation of RFEDP. FINCLUDE will be implemented under the same institutional arrangements of the RFEDP. GoS has retained the staff and the existing accounting software, Sun Systems has been proposed for adoption under FINCLUDE (to be reconfigured to reflect needs of FINCLUDE). This should mitigate the risk of start-up delays experienced with the SMLP arising out of delays in recruitment and setting up of the accounting software. MoF will open a separate designated account at the Bank of Swaziland solely to receive IFAD loan funds. Funds will then flow into a project operating account held at a commercial bank acceptable to IFAD from which payments for services/ goods and implementing agencies will be done.

317. The Project will be implemented on the basis of approved Annual Work Plans and Budgets (AWPBs). The budgeting process will be done jointly by CFI/PMU and implementing partners. PMU will consolidate the budget, present it for approval by the Project Steering Committee and submit the estimates to MoF for inclusion in the National estimates. A No Objection from IFAD will be required for each AWPB during the implementation. Budget submission to IFAD will be by 60 days prior to commencement of each fiscal year/budget year as required by the IFAD General Conditions.

318. The Internal Audit Department will include FINCLUDE in their internal audit plan and internal audit reports or implementation action plan of internal audit recommendations will be required by IFAD at least once a year. External audits will be done in accordance with IFAD audit guidelines and audit reports and the related management letters will be submitted no later than six months after the end of each fiscal year. The external audit will be carried out by a private audit firm as IFAD continues to assess the capacity level of the Auditor General, Swaziland's Supreme Audit Institution for consideration of taking up of the audits.

319. The PMU will develop and implement a Project Implementation manual (PIM) which will include a comprehensive financial management section. The financial management arrangements including, staffing, budgeting, accounting, funds flow, disbursements, financial reporting, internal controls and auditing are detailed at appendix 7.

320. **Procurement:** Procurement will be governed by the Procurement Act, 2011. This act guides the tendering of public works, supply of goods and provision of services to the Kingdom. The act requires that public procurement fulfil a number of criteria including legality, public interest, economy, efficiency, transparency, accountability, fairness, competition and value for money. The overall procurement responsibility under FINCLUDE will rest with MoF with delegated powers to CFI in accordance with thresholds. In accordance with the IFAD procurement Handbook, international competitive bidding (ICB) will be carried out in accordance with the World Bank guidelines. As far as practicable, all procurement will be done competitively. Details of procurement arrangements of FINCLUDE are in Appendix 8.

H. Supervision

321. FINCLUDE will be jointly supervised by GoS and IFAD in line with the IFAD Supervision and Implementation Support Policy, based on the annual plan. Formal joint supervision missions will be conducted at least once per financial year with additional implementation support missions mobilized as necessary. At least one additional implementation support mission will be mobilized within the first 6 months of project implementation and at least one additional implementation support mission during the second year. The focus areas of each mission is planned in coordination with the GoS and GoS representatives are invited to participate in the missions when possible. Implementation support activities may include capacity building for the whole Swaziland country programme, including SMLP/CSARL and possible ongoing grant activities.

322. A Mid-Term Review will be jointly conducted by GoS and IFAD around the end of Year 3 of the project, or earlier if required.

I. Risk identification and mitigation

Table 6: Risks and mitigation

Risk	Mitigation
Limited institutional capacity to implement key elements of the project and/or sustain key roles after project completion	• skills gap and attitude analysis, stakeholder mapping and review of HR policies and practices of relevant teams with implementing partners. • SC to lead development of capacity building plan, overall and for each partner with assigned budgets, activities and milestones – based on above skills gap analysis. • SC to then routinely track and manage delivery of capacity building plan. • KM strategy and specific KM products to be developed to support the core capacity building programme above. • Regular and flexible international TA to be provided in first 3 years, with focus and timing of TA to be linked to capacity building priorities. • Around end Yr2, SC prepare an "issues and options paper" covering options for project sustainability and exit strategy. SC to then lead development of exit strategy, with clear milestone, for key roles of the project and adjust KM and capacity building plans to ensure delivery. See 'Institutional Capacity' section above for further details.
Lack of credible market opportunities in which smallholder can profitably compete limits the scale of impact	• Selection of a portfolio of five initial products with scope to increase number later that have been screened for confirmed market demand and smallholder profitability. • Products target both domestic and export markets, given some diversity and reducing concentration risks.
Promotion of crop/livestock production systems poorly suited to the local agro-ecological conditions and expected future climatic conditions	• Suitability to local agro-ecological and climate conditions will be non-negotiable criteria for pre-screening by the project and identification of specific commodities and clusters. This will consider historic as well as projected future climatic conditions. • Farmers will be guided through a facilitated process to re-confirm that the product for the cluster they have chosen to join is a sensible choice for them individually given the local agro-ecological conditions and patterns of expected local climate change, integrated into the mainstream mentoring process. Drawing on the approaches developed in the Participatory Integrated Climate Services for Agriculture (PICSA) approach, this will include sessions on historical climatic trends and analysis of seasonal forecasts, its impacts on agricultural production, and alternative and innovative solutions to cope with current climate and weather conditions. The objective being that farmers make climate informed investment choices, factoring in 'no regret' adaptations into their investment plans. • The SDF will be available to support action research and demonstration of relevant technologies, new varieties and other adaptations to improve climate resilience of the farming systems in a particular commodity/cluster where these are identified as a priority constraint/risk through the MCM and other project

	activities. • The CEPD under Comp 2 will also be used to support banks/MFIs to develop and adopt standard checklists of relevant social and environmental safeguards for small rural loans, to reduce the risk of investment in inappropriate production systems.
Banks are unwilling to extend loans to rural farm/non-farm micro enterprises on the scale required	• Adopt a facilitated cluster approach, for pre-screen profitable smallholder agricultural products and non-farm investments. • Aggregation of small loans via cluster to reduce transaction costs and risk. • Mentoring of individual farmers and producer groups through full investment cycle through to loan repayment. • Strong data capture, analysis and dissemination to FIs of actual loan performance to build understanding and confidence of lending opportunities. • Provide financial institutions with access to a risk management facility, and possibility to access TA for tailoring products to smallholders and rural entrepreneurs.
Ineffective targeting of poorer individuals & households, women and especially youth	• Ensure rigorous and objective initial commodity assessment and selection process, validating credible affordable investment pathways. • "Double wave" inclusion process in villages, with more risk averse or resource constraint individuals able to join groups and cluster in second wave once first wave of 'first movers' have demonstrated potential and established linkages to buyers and suppliers. • Differentiated facilitation process within villages and groups to identify and remove the specific bottlenecks faced by youth and other resource constrained e.g. in securing access to initial block of land for aspiring young farmers to use – either from parents or Chiefdom. • Social mentoring process within group and at household level to increase the support provided within families and communities to enable youth and women to gain more economic empowerment and participation in project.
Unfamiliar approach to inclusive cluster development will slow project delivery and reduce impacts	• Careful recruitment of Cluster Development Coordinator and Deputy Coordinator from small pool of experience individuals in country with backstopping by external TA. • Phasing-in of cluster activities and over-staffing at start to allow chance for 'on the job' learning. • Close implementation support from IFAD during first 24 months.
Insufficient flexibility in resource allocation and action plans which must be able to respond to emerging market opportunities and risks in rapidly changing context	• Ensure managers have good current information on situation in each cluster to allow maximum time to respond, achieved by investing in management information and M&E systems based on current best practice (e.g. DCED Standard). • Attention given to streamline internals processes and make them efficient and timely to increase responsive of planning and resource mobilization. • Performance targets and assessment based on impacts and results not inputs/ outputs.
Fragmented and/or misaligned approaches between various government and donor projects	Central level: • Key government agencies are core implementing partners. • Develop regular deliberate information sharing and openness to joint peer review and evidence based evaluation of different approach. • Piloting opportunities to align and evaluate their effectiveness before scaling up e.g. in opening up the FIRM to be able to support loan financing of vegetable farmers in 1-2 irrigation schemes under the EU High Value Crop project to test substituting the planned 70% investment grants with loans and similar arrangement for farmers in SMLP supported clusters. Local/cluster level: • actively encourage all projects and government teams engaged in the local areas to participate fully in the MCMs and mobilize their support to the priorities raised by the primary actors in the cluster.

323. In terms of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), the project is classified as environmental and social **category B.** The project's potential negative

impacts are of light severity, site-specific and can be remedied using readily available measures. A large part of project interventions will be delivered through financial intermediaries; therefore the mitigation strategy will include specific measures to build the capacity of those financial institutions to better understand and manage risks. The project's climate risk classification is **Moderate**. Climate events and trends are expected to have a considerable influence on the success of the project in achieving its development objective; however, adaptation measures have been mainstreamed into the project design to lower the risk.

IV. Project costs, financing, benefits and sustainability

A. Project costs

324. The total project costs are estimated as USD38.6 million. A total public investment of US17.3 million from GoS, IFAD and a climate financier is expected to leverage additional private investment of USD21 million from beneficiaries and enterprises as summarized below.

Table 7: Project costs and financing by component

	GoS		IFAD Loan		IFAD GRANT FFR		Climate financier Grant		Beneficiaries		Enterprises		Total	
USD 000		**%**		**%**		**%**		**%**		**%**		**%**		**%**
1. Inclusive Cluster Development	758	12.1	5,356	85.5	84	1.3	-	-	32	0.5	32	0.5	6,261	16.2
2. Expanding Supply of Rural Financial Services	66	0.3	2,498	10.4	219	0.9	-	-	13,800	57.5	7,431	30.9	24,013	62.3
3. Climate informed decision making and investment	-	-	-	-	-	-	5,069	100.0	-	-	-	-	5,069	13.1
4. Programme Management and Knowledge Management														
4.1 Programme Management Unit	2,119	75.6	685	24.4	-	-	-	-	-	-	-	-	2,803	7.3
4.2. Knowledge Management and M&E	-	-	413	100.0	-	-	-	-	-	-	-	-	413	1.1
Total PROJECT COSTS	2,944	7.6	8,951	23.2	302	0.8	5,069	13.1	13,831	35.9	7,462	19.4	38,559	100.0

B. Project financing

325. Financing will include USD2.9 million from GoS, an IFAD loan of USD8.9 million, an IFAD Grant of USD0.3 million via the Financing Facility for Remittances and a climate finance grant of USD5 million plus contributions from beneficiary of USD13.8 million and from enterprises of USD7.5 million. The climate financing request is a joint initiative between the MoF and MoTEA to introduce climate aspects to the rural finance sector in Swaziland, and will target one of the major climate financing institutions (Green Climate Fund, Global Environmental Facility, Adaptation Fund). The climate financing contribution is not yet confirmed and a full proposal and application will be developed and submitted during the first half of 2018 so that, if successful, it can start close to the same time as the main FINCLUDE project.

C. Summary benefits and economic analysis

326. **Project benefits.** Project interventions are expected to result in an extensive range of tangible and intangible benefits. Key quantifiable benefits include: (i) increased incomes from micro, small and medium enterprises, newly created or expanded through access to working capital or investment loans; (ii) employment opportunities, generated by the expansion of on-and off-farm activities, including self-employment; (iii) increased yields through the adoption of Good Agricultural Practices (GAP), better quality seed (hybrid) and investments in water efficient drip irrigation to improve productivity and enable year round cultivation; (iv) reduced losses from climate-related stress and shocks; (v) increased sales and net margins and more efficient output market. All these benefits will be generated by supporting access to finance and developing the capacity of producers and groups

through business skills trainings, social mentoring and producer coaching. Intangible benefits include: (i) empowerment and mitigation of common social risks through by promoting socio-economic, gender and youth inclusiveness; (ii) improved nutrition due to access to more diversified and nutritious foods, higher income and improved stable production of Maize; (iii) environmental sustainability, through the use of water efficient drip-irrigation and soil management practices under as part of GAP.

327. There are expected to be a total of 18,500 direct beneficiaries from the project, of which 8,500 will benefit from the full range of project activities and a further 10,000 will benefit from 'finance only' activities.

328. **Economic analysis.** The economic analysis shows satisfactory results, with a Net Present Value at USD 64 million and a 32.2% Economic Internal Rate of Return (EIRR) at an economic discount rate of 10%. Results were tested for sensitivity to variations in benefits and costs and for various lags in the realization of benefits. The project remains profitable under a wide range of scenarios but remains sensitive, in particular to downward variations of output prices and in implementation delays of 2 years. A delay of 2 years in the generation of benefits or a decrease of 50% relative to the base scenario would reduce the EIRR to 18-23%, substantially above the discount rate. Cost overruns would have very moderate impact, with EIRR falling to 28% with a 20% increase. All scenarios show acceptable results. More detail of the Project economic and financial analysis is included in Appendix 10.

329. While the three components are designed to achieve maximum impact together, Component 1 and 2 have been designed to be highly effective even in the event that the required co-financing for Component 3 is not secured. The economic and financial analysis are therefore conservatively presented only for the costs and benefits associated with FINCLUDE excluding Component 3, to be financed by a climate finance grant.

Appendix 1: Country and rural context background

I. Overview

1. **Poverty and Rural Development Context.** Swaziland has the lowest life expectancy at birth in the world – at just 49 years[47] and 80% of the population die below the age of 40. It also has the highest prevalence of HIV/AIDS worldwide. Life expectancy is still well below its peak of 59 years in 1990. Having recovered slightly in the decade since its lowest point of 46 years in 2004, it has deteriorated again in the last two years.

2. Poverty is also strongly linked to the high prevalence of HIV/AIDS (currently 26%) in Swaziland. Although HIV rates are declining among youth, the vulnerability of young women to HIV remains high (HIV prevalence among women over 25 years of age is 26% compared to 5% among men in the same age group).[48]

3. Income distribution in Swaziland is extremely unequal, with the wealthiest 10% controlling almost half of all consumption and 63% of the population living in poverty. The majority of the population (79%) lives in rural areas. 84% of rural inhabitants are considered to be poor, with about half of those unable to meet minimum daily nutritional requirements (2009/10 figures). Per capita income and food consumption are both significantly lower in rural than in urban areas, with the greatest poverty concentrated in the Lowveld, an area unfavourable to agricultural productivity and subject to periodic drought.

4. Swaziland had a mixed outcome in the achievement of Millennium Development Goals (MDGs) attaining universal primary education (MDG 2), promoting gender equality (MDG 3) and Combat HIV/AIDS, malaria and other diseases (MDG 6). While MDG 7 (Ensure environmental sustainability) was partly achieved, eradicating extreme poverty (MDG 1), reducing child mortality (MDG 4) and improvement of maternal health (MDG5) will need to be re-emphasized in the national Sustainable Development Goal (SDG) Agenda 2030.[49]

5. Swaziland has one of the youngest populations in the world, with a total of 79% under the age of 35. With 40% being less than 15 years old, a large part of the population will only become work-eligible in the coming years.[50] Women are instrumental in demographic and economic development as 49.5% of households are female-headed. However, the prevailing framework conditions have thus far not allowed Swaziland to reap potential dividends as both, women and youth remain particularly vulnerable to poverty. In rural areas, this is attributable to their limited access to land, weak tenure security and limited employment opportunities in the non-farm economy. Over 67% of female-headed households are considered poor, compared to 58.9% of male-headed households. The lack of access to male labour among women-headed households contributes to the gender gap in agricultural productivity.[51]

6. **Food Security and Nutrition.** Swaziland has experienced a decline in food production and increasing dependence on imports from South Africa. Like most middle-income countries, malnutrition manifests through both undernutrition and obesity. The prevalence of stunting at national level is 25.5% with an increasing rate of adult overweight 41%. The 2016 drought exacerbated chronic malnutrition, micronutrient deficiencies, and water scarcity, mainly due to unsafe drinking water, poor sanitation, and hygiene conditions.[52]

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[47] World Bank, databank.worldbank.org
[48] 2005-2010.
[49] UNDP Swaziland 2017 (http://www.sz.undp.org/content/swaziland/en/home/countryinfo.html).
[50] Ministry of Sports, Culture and Youth Affairs, 2015: Swaziland State of the Youth Report.
[51] UNWOMEN, UNDP, UNEP and WB, 2015. The Cost of the Gender Gap in Agricultural Productivity in Malawi, Tanzania and Uganda.
[52] The National Rapid Assessment Report on Nutrition (2016).

7. **Political and Economic Issues.** The Kingdom of Swaziland is a small land-locked country of 17,364 square kilometres situated between South Africa and Mozambique, with a population of 1.269 million of which 79% are rural and 21% urban. Swaziland is divided into four administrative regions (Hhohho, Lubombo, Manzini and Shiselweni), 55 Tinkhundlas (districts/constituencies) and 360 chiefdoms (communities). The country defines itself as a “monarchical democracy”, with parallel parliamentary and traditional systems of governance. Swaziland is ranked as a lower middle-income country with a GNI per capita of USD3,550, and a GDP of just over USD4.0 billion.[53]

8. The economy has stagnated over the past few years, with GDP slowing from 2.5% in 2014 to 1.7% in 2015 due to a drought, affecting agricultural production, mining sector fragility, and weak economic growth in South Africa, the country’s major trading partner and source of revenues channelled through the Southern African Customs Union (SACU)[54]. Swaziland is highly dependent on SACU receipts which has accounted from 50% to 75% of the national budget in recent years.[55] 82% of small, medium and micro enterprises (SMMEs) are classified as micro businesses and commercial agriculture accounts for only 6% of land use. The public sector is a key driver of economic activity and the single biggest employer. Drops in SACU revenues have negative effects on civil servants' salaries and social welfare. The combined effect of a small private sector, large public sector and reliance on external revenue is vulnerability to fiscal shocks. The small economic base also implies a small formal employment market. Thus the need for economic diversification to reduce reliance on SACU receipts is the greatest macroeconomic imperative towards achieving sustainable growth. Access to financial service coupled with SMMEs and pro poor VC development are important drivers of growth.

9. **Business environment** is very challenging. Swaziland ranks poorly in the 2017 World Bank “Doing Business” – on a par with Lesotho and Namibia but substantially worse than leading SACU members – Botswana and south Africa. Only non-SACU Mozambique scores worse in the region.

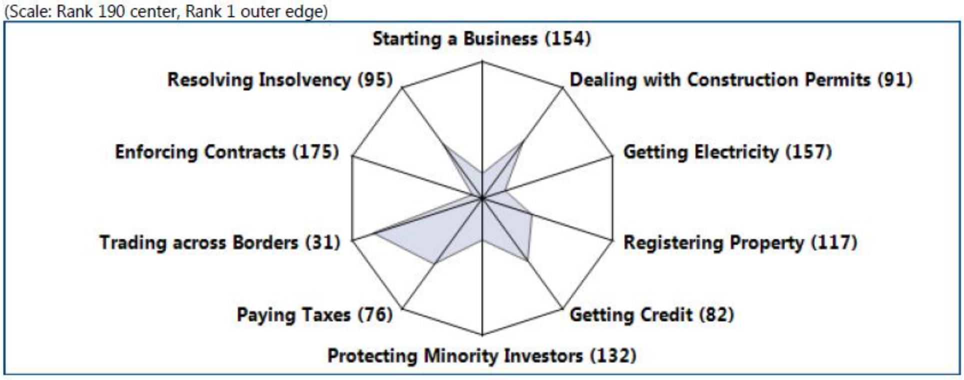
Table 8: “Doing Business”, 2017 ranking (World Bank)

Country	Rank (out of 186)
Botswana	71
South Africa	74
Lesotho	100
Namibia	109
Swaziland	111
Mozambique	137

10. There are clearly many challenges to doing business in Swaziland. While the country is among the best in the region on ease of international trade (Trading across border), it scores poorly on almost all other dimensions but especially badly on: Enforcing contracts; Getting electricity; Protecting Minority Interest; Starting a Business, and; Registering Property. The breadth and depth of problems would be a concern to any potential business.

[53] 2014.
[54] SACU comprising Botswana, Lesotho, Namibia, South Africa and Swaziland applies a common set of tariffs and disproportionately distributes the revenues among its members states to the particular advantage of smaller countries.
[55] Freedom House, 2013: Swaziland: A failed feudal state.

Figure 7: Rankings on Doing Business topics - Swaziland (World Bank, 2017)



II. Agriculture & Smallholder agriculture

11. Approximately 71% of land in Swaziland is available for farming, but just over 10% is classified as arable land. Land tenure is organised in a dual land tenure system consisting of Swazi Nation Land (SNL), which constitutes about 60 percent of the total land area and owned by the King and allocated to households by traditional chiefs on his behalf, and Title Deed Land (TDL) which is freehold and owned mainly by companies (sugarcane, forestry, citrus and pineapple plantations) as well as by some individuals (FAO). Smallholders rely almost entirely on Swazi National Land and do not have title of the land they farm. The country's agricultural sector, most of which can be characterized as rain-fed subsistence farming on communal land, employs 29% of the country's labour force and provides a livelihood for 78% of its population.

12. Agriculture's contribution to Gross Domestic Product (GDP) is currently estimated at around 10 percent (2015). TDL contributes about 80 percent to the agricultural sector[56], mostly derived from large estates, while around 10 percent comes from SNL, with the remaining contribution from livestock and forestry. Smallholders contribute less than 5% to overall agricultural production and productivity is susceptible to unreliable rainfall and droughts. Cattle provide financial security to many rural households on SNL, and consequently, most lands are overstocked, increasing vulnerability to drought and soil degradation. High population density, the impact of HIV/AIDS pandemic on agricultural workforce and inappropriate cropping practices further aggravate negative environmental impacts. The Swaziland National Agriculture Investment Programme (SNAIP) emphasises the development of commercial agriculture on communal land (including the development for sugar cane, red meat and a diverse range of niche products) and pursues the development of commodity markets for smallholder products and the sustainable use of natural resources, especially water for agriculture.

Key government policies and strategies

13. FINCLUDE is highly aligned to the intended Outcomes and SNAIP Programme 2 which "aims to **improve marketing and processing infrastructure, improve access to market information and link farmers to markets**, promoting farmers access to finance and improving sanitary and phytosanitary standards in value chains. The programme will target specific value chains and develop strategies for capitalising production and marketing initiatives. The Programme also includes measures to strengthen commercial arrangements including contract enforcement, transparency and ease of doing business. The outcomes that Programme 2 is expected to influence, and the milestone indicators showing progress towards these outcomes include the following:

[56] FAO/WFP (2015) Crop and food security assessment, special report.

Outcomes	Milestone Indicators
• *No. of rural households (including women headed households) undertaking commercial agriculture increased*	• *No. of rural households earning more than E 100 per day (in real terms) from 15% to 35%* • *Declining flow of remittances to rural households???* • *Improved distribution of agricultural income opportunities between men and women* • *Increase in income of female headed households* • *Increase in number of youth agricultural enterprises baseline to be established*
• *Volume and value of agricultural exports increased*	• *Trade statistics show 15% pa uptrend in volume and value of agricultural exports*
• *Volume and value of agricultural imports decreased*	• *Trade statistics show 5 % pa downtrend in volume and value of agricultural imports*
• *Decline in post-harvest losses especially maize*	• *Post-harvest losses decline from 25% to 10%?*
• *Value of agricultural commodities marketed under quality accreditation systems (e.g. SWASA) and those finding new markets*	• *volume of non-sugar commodities marketed under accreditation systems increased from 5 to 25%* • *Proportion of product sales through formal market outlets increases compared to traditional or alternative (status quo ante) outlets increases to 55% from 25%*
• *Road access to markets and services strengthened*	• *Transportation costs reduced by 15% and average speed increased for 25 to 50 km/hr*
• *Farmers have access to financial services needed to engage in commercial activities*	• *Percent of farm households with access to financial services increased from 54 to 80% and to credit from 30 to 65% (source MFU, MoF)*

III. Rural finance and financial services

A. An Overview of the Rural Finance Sector

14. Access to credit for the rural smallholders and MSMEs is a serious impediment in the efforts for creating sustainable employment, improving food security, and reducing rural poverty. Although at a national level the financial sector is dynamic and captures more than 70% of the active population in Swaziland, banks exhibit limited appetite to lend outside the sugar cane sector, as they perceive rural MSMEs and smallholders a high risk and high cost undertaking. Consequently, almost 30% of the adult population remains unserved by either formal or informal financial services mostly in rural areas.

15. The banking sector is liquid and well capitalized (CAR over 20%)[57]. Additionally, a wide range of institutions, either formal or informal cater the needs of the client base (mainly these of the urban). Access to finance is not an issue, yet money is lingering in deposit accounts and is being used mainly for commercial transactions[58]. Access to quality credit is restricted and usually unavailable to the rural MSMEs.

[57] Historically, bank capital adequacy ratio in Swaziland reached an all-time high of 33.8 % in 2008 and an all-time low of 17.3 % in 2005. When compared to its peers, Swaziland's CAR is higher. In Botswana it was 20.1 %, 15.2 % in Lesotho and 14.2 % in South Africa in 2015.
[58] 44% of adults have a bank account across all segments of the population. However, evidence suggests that a high proportion of these bank accounts are dormant or transactional (monthly deposit/withdrawal of salary).

16. Although the regulatory environment safeguards financial institutions through prudential requirements it does not create a sense of security to the customers, with adequate protective or grievance measures. Furthermore, training on financial literacy and entrepreneurial skills is uneven (every Capacity Development Provider has different standards) leaving the rural communities frustrated when their loan applications are consistently rejected by the banks and the banks consistently complain of receiving immature proposals from financially inept rural entrepreneurs. This pattern resulted in fatigue and mistrust between the demand and supply for rural credit.

B. Financial Service Providers and their Regulators

17. The number and diversity of financial service providers in Swaziland is large compared to the country's small size, population and income level. They range from formal banks (widely owned by foreign interests); to a regulated variety of MFIs, DFIs, micro-lenders and insurance providers; and an informal sector with a large number of SCGs, self-help groups and ROSCAs that are promoted by NGO operated projects and the Ministry of Commerce. The Banks are regulated by the Central Bank of Swaziland (CBS) while the MFIs, the DFIs, the insurance providers and the micro-lenders by the Financial Services and Regulatory Authority (FSRA). The pension funds hold about 63% of the total assets of the financial sector followed by the banks that hold 22%. Savings and Credit Institutions hold 9% of the total assets while 6% are in the insurance sector.

Figure 8: Formal and Informal Financial Service Providers (and regulatory system)

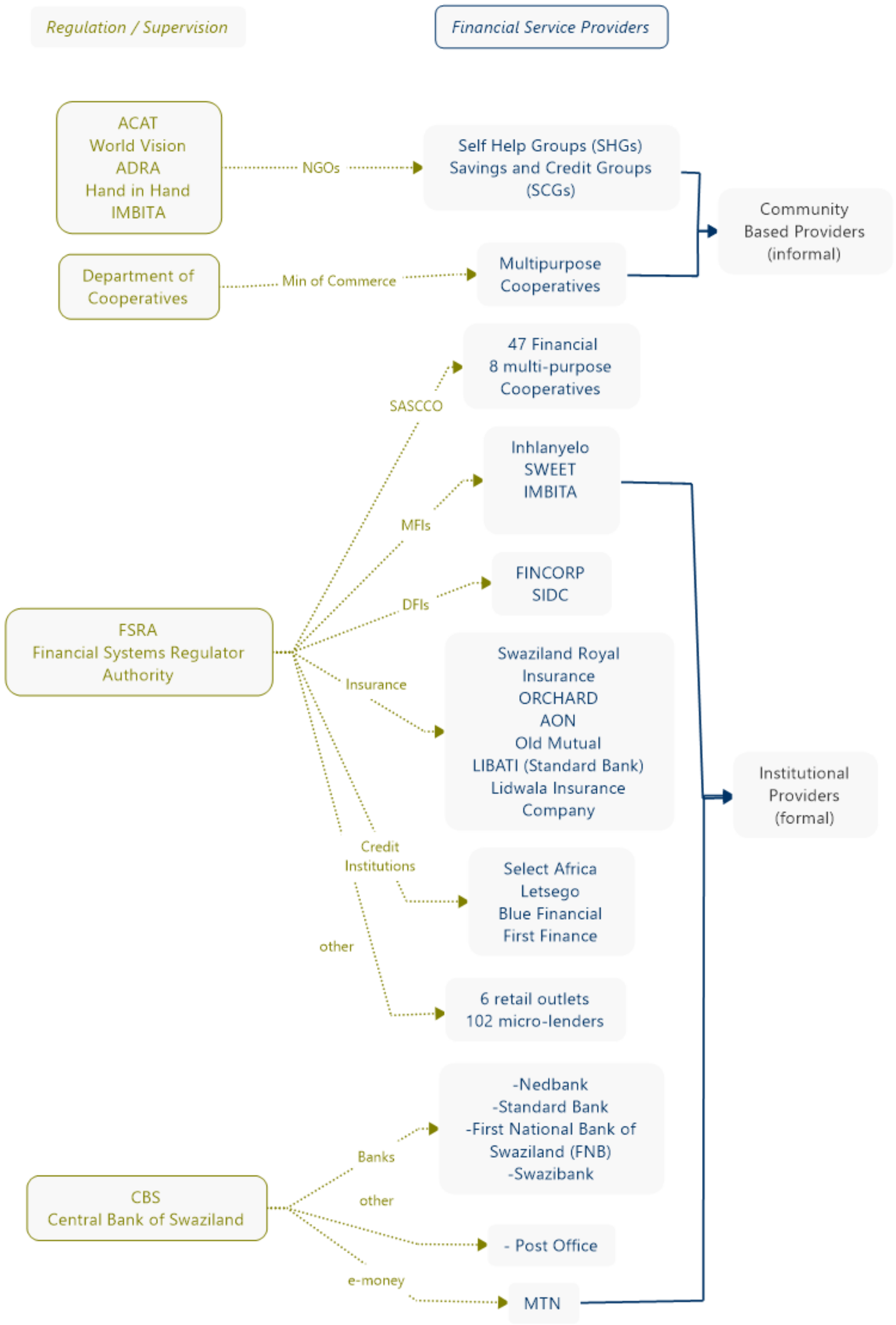
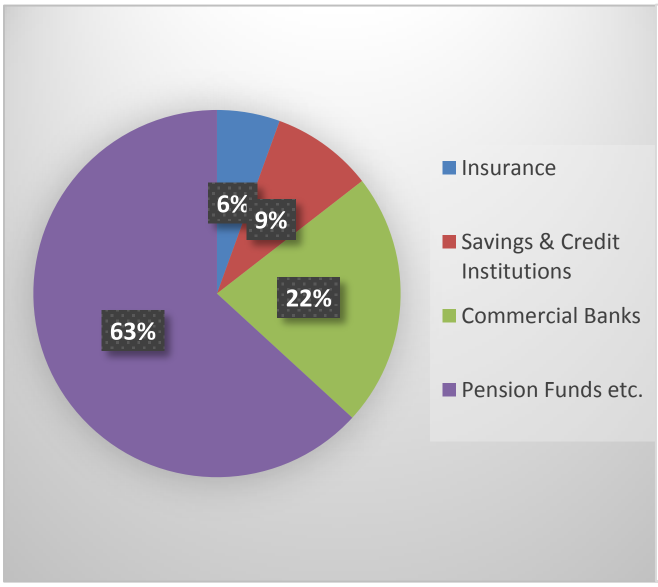
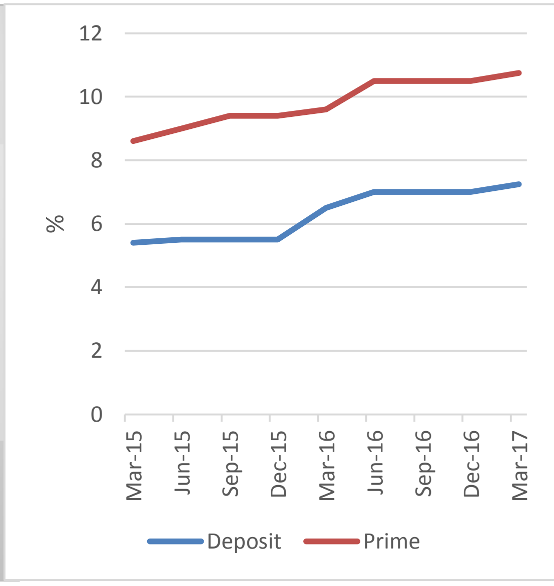


Figure 9: Share of participants in the Financial Sector (Assets) Interest Rates (Prime and Discounted)





Source: FSRA and CBS, Quarterly Report Mar 2017

(i) The Banks

18. The banking sector is composed of four commercial banks (Nedbank, Standard Bank, FNB and Swazi Bank), with more than 40 branches across the country (more than 200 ATMs and more than 800 POS), one building society, and three credit institutions. It remains well capitalized and profitable and dominates the Swazi financial system (accounting for 84.5% of total formal credit and 93.5% of formal deposits excluding pension fund deposits). The South African banks account for the largest share of the market.

19. Bank capital to assets ratio is reported to be 16.2%, return on assets 2.5% and return on equity 21.4%[59]. Asset quality is steadily improving with NPLs hovering between 6-8%. Deposit interest rate ranges between 3-5% % and lending interest rate is prime plus 1 to 6% (prime being 10.27%). Stress tests performed by the International Monetary Fund in early 2015 indicate that even under the most stressed scenario the overall capitalization of the sector would be impacted, with tier one capital reduced to 3.3%. The banking sector caters mainly (70%) to corporate lending, focusing on larger companies with an established credit history within the specific bank (in the absence of a credit registry).

20. In the rural landscape SwaziBank has the strongest presence among the banks[60]. It is a government owned development and savings finance institution established in 1965 by the late King Sobhuza II in an effort to support development projects, mainly smallholder farmers and low cost housing. It is involved in industry, commerce, agriculture, MSMEs, health, tourism, transport and mining and offers MSME loans, housing loans, leasing, personal loans, agribusiness and corporate loans. SwaziBank also offers numerous banking solutions, such as debit card, savings, investment and corporate accounts, premier banking, foreign exchange, and loan facilities for housing and vehicle finance.

21. 15% of the Bank's portfolio is in agriculture representing a total of SZL95 million. 60% of that is in the sugarcane value chain. SwaziBank does not finance structures on Swazi Nation Land unless the loan is secured by immovable property. The equipment is also used as security. Farmers must submit business proposals proving viability of such businesses and these businesses require a

[59] CBS Annual Report 2016.
[60] Unofficial reports attribute a market share of 60% of the agribusiness market to FINCORP – a DFI operating under the supervision of the FSRA – a share of 30% to SwaziBank and 15% for Standard and NED banks.

trading licence. The agribusiness finance offers the following agricultural credit products: Farm purchase, Sugarcane farming, Field crops & vegetable production, Dairy farming, Poultry production, Piggery production, Feedlot farming and Agro-processing.

22. The bank employs extension officers who receive credit applications and monitor projects to secure loan repayment. It prefers to extend loans to integrated market proposals with already existing linkages between production, processing and the markets. The extension officers support their clients and require quotations for required inputs to propose the optimal amount of loan to the client. Disbursements are then directly deposited to the suppliers. The bank also supports clients with financial literacy training. The agribusiness department charges interest rates ranging from prime plus 2 to 6% depending on the risk assessment, while NPLs reach 30%.

23. StandardBank's agribusiness financing department offers credit schemes for smallholder farmers and agribusinesses. Crops financed include staple and cash crops like sugar, maize, sunflower and commercial vegetables. The Agribusiness Loan Scheme targets: farmer groups, linkages between smallholder farmer groups, input supplies and off-takers, farmer associations and cooperatives. It provides medium to long term financing and support for the development of commercial farming and value-addition to agricultural products. It offers leasing products for purchase of agricultural machinery, post-harvest handling equipment, storage and agro-processing facilities as well as credit for capital inputs for livestock, poultry, and horticulture. The offered loans may be short-term that mature in 3 to 24 months, or longer-term than can exceed 7 years and may include an optional 3 month grace period. The amounts range from SZL5,000 to SZL5 million, with an average of SZL500.000. Interest rates range between prime plus 3 to 5%. StandardBank's prudential policy secures an overall NPL ratio not exceeding 1%.

24. NEDBank (Swaziland) is a subsidiary of Nedbank Group which offers a diversified range of wholesale and retail banking services, as well as insurance, asset management and wealth management solutions. The bank also offers contract farming loans in the range of SZL145,000 with a maturity of 3 to 6 months for smallholder farmers wishing to buy inputs for livestock production, charging an interest rate of prime plus 3%. NEDBank's portfolio in agribusiness and forestry reached SZL37,198,774 in 2016 or 5% of the total portfolio and an overall 3% NPL. In 2012, it entered in partnership with SEDCO (training institution under the MoCIT). As part of this agreement, SEDCO is in charge of preliminarily screening and training MSMEs to develop a business plan. However, the majority of ensuing business plans haven't passed the risk assessment process required to obtain credit at NedBank.

25. FNB markets itself as the technology bank and has limited and low-risk products designed for business clients, such as asset-based credit and property finance. The bank has limited and outdated experience with the public partial credit guarantee schemes, due to the high pay-out collection costs.

(ii) Mobile Money

26. The banking sector is followed in scale by financial services offered by the mobile operator MTN, the Swazi Building Society (SBS) and the Post Office (Swazi Post). The SBS, although not yet holding an actual banking license, offers most of the banking services already. Similarly, the Swazi Post, through an agreement with Swazi Bank offers a range of banking services at selected post office branches (withdrawals, deposits, transfers and opening of accounts). The mobile network operator, MTN initiated branchless banking in 2011 with the introduction of Mobile Money (e-money). As 83% of the adult population have access to a mobile phone, but not necessarily to a bank (especially those remotely located in the rural areas away from the Manzini – Mbabane corridor) they constitute a captive market for mobile money. The pervasiveness of cash-based transactions and savings in the Swazi economy indicates the challenge pre-existing payment mechanisms have with reaching the majority of Swazi adults. To date there are more than 400,000 registered e-wallet users (i.e. 40% of the total MTN subscribers) holding more than SZL5 3million on e-wallet accounts. The use of e-money has still a lot of potential for expansion, especially for commercial transactions in the rural areas.

(iii) FINCORP

27. Fincorp (Swaziland Development Finance Corporation) is a non-bank state-owned development finance institution, not authorised to accept savings. It was founded by the GoS in 1996 as an MSME financing institution, with a capital injection of SZL44 million[61]. In 2009, the corporation was ranked the fifth best development finance institution under the association of African development finance institutions prudential standards, guidelines and rating systems. 15% of Fincorp's loan portfolio is addressed to agribusiness which represents a 60% of the total agriculture/agribusiness market share. Sugar financing accounts for 74% of Fincorp's agribusiness portfolio, and lending to forestry is increasing. A wide range of products is available for MSMEs, with repayment period of 6 to 60 months and loan amount varying between SZL500 and SZL200,000. The portfolio at risk is 36%, but the write-off ratio is small (0.6%), meaning that after time-intensive engagement with customers loans are finally recovered. Thus NPL rate of MSME loans (SZL200,000) is smaller than 5%. Loans were originally not collateralized, but in an effort to reduce losses, Fincorp has moved to offering collateralized loans on demand. Collateral requirements can be swapped for 5% of future profits or proof of dealing with a secured market. Fincorp's average loan size is SZL300,000 with interest rate prime minus 2%.

28. In order to improve its financial stability and diversify risk, Fincorp set up First Finance in 2010 to offer personal loans to permanently employed customers. The subsidiary currently serves more than 9,000 clients and has a loan portfolio exceeding SZL 70million.

(iv) The MFIs

29. Apart from the widespread use of e-money as a payment system in the rural communities (and to a lesser extent SwaziBanks lending operations), financial services described above are intended mainly for the top end of the market. Credit for the lower tiers originates mainly from the MFIs, DFIs and the informal sector. There are three MFIs with an explicit mandate to serve the financial needs of the rural MSMEs: a) the Inhlanyelo Fund is a seed capital fund, supporting and promoting entrepreneurial talent at grassroots level; b) Imbita Swaziland Women's Finance Trust Fund operates following the Grameen model and provides women with credit to start businesses and increase their ability to support their families. Formed in 1991 it is now facing critical constraints and its BoD has collapsed. It has an active portfolio of only 110 loans, which indicates that it has almost stopped its lending operations; and c) The Swaziland Women Economic Empowerment Trust (SWEET), formed in 2010 by her Majesty the Queen Mother to facilitate the development of women in the rural communities. It is operating Grameen type savings schemes and has more 20,000 members and SZL7.2 million. It has not yet started lending operations due to constraints at various levels (human resources; credit processes, credit risk management systems, internal control mechanisms, etc.).

30. The Inhlanyelo Fund monopolizes the MFI sector. It is a "seed" (nhlanyelo=seed in siSwati) capital fund focusing on the lower segment of the population and leveraging donations from the Swaki group and the Kirsh Foundation. The Fund offers small-size uncollateralized loans in the amount of SZL1,000 to 25,000 and with maturity of up to 24 months. Interest rates are flat at 15% per annum and assessment fees vary between SZL50 and SZL1000. Repayment schedule is flexible and customized to the cash flow of the borrowers. Portfolio performance is not closely monitored, but NPLs do not exceed 20% and write offs are less than 3%.

31. The fund was first pronounced from the throne by His Majesty King Mswati III in 1999. It utilises the existing administrative and community leadership structures (chiefdoms) as its key regional intermediaries from where to spread and penetrate its micro loan operations to individual beneficiaries. Disbursed loans amounted to SZL15 million to over 2,600 borrowers in 2016 (more than 70% of which are women). Being a philanthropic organization it is lacking institutional sustainability and effective project monitoring capacity. As a result, it suffers uncertain cost recovery, high operating costs, undiversified capital base and cumbersome appraisal procedures.

[61] Currently owned 80% by the GoS and 20% by the royal-owned company Tibiyo Takangwane.

32. Successful beneficiaries are provided with training by SEDCO and growth trajectory is consistently remarkable in terms of increased income and assets. There is no requirement for people to repay if their business has failed, but if it was successful and they did not repay then the chiefdom would put pressure to obtain repayment so as to recycle the money to the next person waiting for a loan. In this way peer pressure from the community ensures that loans are repaid and credit flows back to the fund and subsequently used again in the same constituency.

(v) SACCOs

33. The history of the financial co-operatives movement in Swaziland dates back to the 1970s when small agricultural co-operatives came together to form an apex body called the Central Co-operative Union. A number of these farmers' co-operatives decided to form SACCOs with the intention of providing a financing vehicle for their agricultural activities. Given that most of the farmers did not have regular income, these SACCOs were not sustainable and many of them failed. Following a difficult period in the financial co-operative sector, government institutions and parastatals started forming SACCOs, with professions as their common bonds. For example, there were SACCOs formed by teachers, nurses, correctional services and the army. This started what has become a strong financial co-operative movement in Swaziland[62].

34. The Swaziland Association of Savings and Credit Co-operatives (SASCCO), was formed in 1988 as the apex body for SACCOs. SASCCO has responsibility to provide services to its affiliates, including advocacy and connecting the movement to the government and international bodies. SASCCO also provides education and training to board members and members of its affiliates. This includes governance training, financial management, human resources management, office administration, and personal financial management for members, based on the needs of the SACCO. It also provides board orientation to newly appointed board members of SACCOs.

35. SASCCO affiliates pay SZL50 per member per year plus 0.01% of their capital to FSRA (the supervisory body). SASCCO's main income stream is the fees and dues paid by its affiliates. It has other income generating activities, including the provision of insurance risk cover for its member affiliates for loans taken by individual members at a cost, as well as insurance on motor vehicles and houses. SASCCO enumerates 300 member cooperatives of which 200 are linked to agriculture and 30 are SCGs. SASCCO's members' portfolio includes SZL1.5 billion in savings of which SZL900,000 is issued in loans bearing 15% interest. Delinquencies occur only from retirees and deceased members. NPL rate is not more than 2%.

36. Despite its fairly good current standing, SASCCO is burdened by memories of collapsed SACCO members in the past and a failed investment, in a large building that remains unfinished, since 2002, in the middle of the capital Mbabane. The building was supposed to encompass a cooperative bank, conference facility, office tower and a parking space.

37. The Cooperatives Development Department (CDD) under the MOCIT is the leading government body promoting cooperative action. CDD offers business training and supervision. It is also mandated to register and de-register SACCOs; to audit them; supervise them and ensure their compliance to the Cooperative Act; and also to resolve disputes amongst co-operators.

38. The CDD organizes Community Colleges and Residential Training Courses in Cooperative Business Management for elected leaders and staff of the cooperatives. It acts as a Business Advisory and Consultancy for cooperative businesses and offers a one year certified course in cooperative business management.

[62] Fimark Trust 2014.

(vi) SCGs

39. There is a number of NGOs (or MFIs)[63] in Swaziland that support the development of income generating activities through self-help groups facilitating savings and access to small loans. These Savings and Credit Groups are formed by community members, who have little or no access to financial services and commit to small regular savings that are enabling community members to plan ahead, cope with household emergencies, develop their livelihoods and invest in the health and education of their children. SCGs that have been developed over the years count in several hundreds and there is no general directory of them. Members are reported to often belong in more than one SCGs catering different needs from each of them. 90% of the households belong to at least one SCGs.

40. ACAT keeps the lead with 400 active SCGs in 2017 averaging 15 to 20 members per group. ACAT reports more than 800 SCGs being developed and operating independently over the years. SCG members save homogeneously SZL5 per month. Accumulated capital is consecutively offered as credit for either consumption or investment to members. Members can deposit even higher amounts against higher participation in the SCGs (in the form of shares) and are encouraged to leave their savings within the group indefinitely.

41. SCGs are trained in simple bookkeeping and maintaining records for loan repayment. Loans can be short-term for amounts between SZL500 to 1000 with maturity up to 6 months, or longer-term for amounts between SZL1,000 to 5,000 with up to 2 years maturity. Interest rates range from 8% to 12%. Accrued interest is redistributed to members (minus incurred cost) as per participation (shares in the SCG). Repayment rates are reported to be high (above 90%). ACAT's member groups have a balance of SZL2.6 million that are kept mainly in accounts in the SBS or SwaziBank and a loan portfolio of SZL800,000. They attribute the large gap between debt and equity to lack of entrepreneurial drive among certain SCGs. An apex organisation could tap on the unutilized resources and expand inter-SCG borrowing. Until they become registered as cooperatives SCGs are informal groups and therefore unregulated.

(vii) Financial Services Regulatory Authority (FSRA)

42. Regulation and supervision of the non-banking financial sector institutions (NBFIs) that consists of SACCOs, MFIs, DFIs, insurance providers, credit institutions and micro-lenders is entrusted to the Financial Services Regulatory Authority (FSRA) with the relevant Act of 12 March 2010 - effective since 1 June 2010. The Act ensures that no financial services entity remains unregulated and unsupervised in order to secure macro-prudential stability in the economy. FSRA is responsible for the safety and soundness of financial services providers, the preservation of standards of conducting business by the financial service providers, the promotion of fair competition between them, the fairness, efficiency and orderliness of the Swaziland non-bank financial sector, and the protection of stakeholders.

43. Despite accounting for around two-thirds of financial sector assets, and the large number and variety of NBFIs (more than 50 cooperatives, 3 MFIs, 2 DFIs, 8 insurance providers, 4 credit institutions, and more than 100 retail outlets, micro-lenders and pension funds) they do not play a role in the development of MSMEs as important as they could. Lending is a marginal share of their assets.

(viii) Central Bank of Swaziland (CBS)

44. The CBS governs banks. Its objective as stipulated in the relevant Order of 1974 is to promote monetary stability and a sound and stable financial structure in Swaziland. Monetary stability refers to a stable price level in the economy that does not change much over time while financial stability is the system's capacity to withstand internal and external shocks and still preserve confidence.

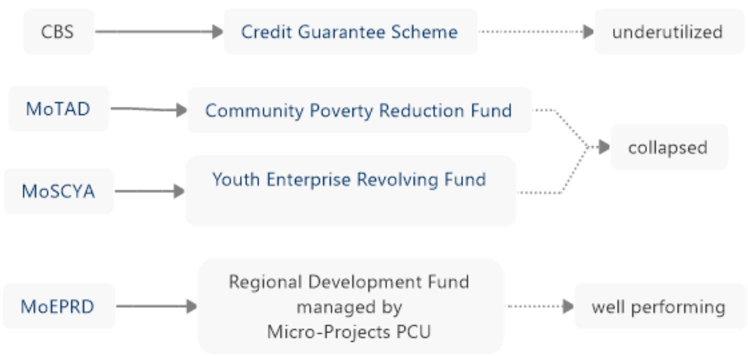
[63] Among them ACAT, WorldVision, Imbita, Swazi Conference of Churches, SWEET, Atra, etc., most belonging to CANGO the coordinating assembly of NGOs.

45. A number of elements in the regulatory framework bring positive thrust to the system and promote financial inclusion, like: a) the definition of banking, that permits non-bank institutions to offer savings and transactions related services, thereby enriching the supply of financial products; and b) the authorization of innovative products, such as mobile banking, (without imposing MTN to get a bank license).

46. On the downside AML/CFT and KYC restrictions on e-money are constraining its more extensive use and lack of clarity on a number of issues (credit interest rate cap, etc.) can lead to an imbalance of power between financial institutions and poor consumers, an imbalance that grows as inexperienced and ill-informed customers choose among increasingly sophisticated products without recourse to adequate protective or grievance measures.

C. Government Funding Schemes

Figure 10: Government Funding Schemes



47. The Swazi Government has taken a number of initiatives over the years to improve financial access for its citizens. The Enterprise Trust Fund, has now become the main development finance institution known as FINCORP which accounts for about 60% of the loans issued for rural endeavours. Less successful government initiatives include:

Operational

(a) **Small-Scale Enterprise Loan Guarantee Scheme (SSELGS)**, under the CBS, that would expand the supply of rural financial offerings. It guarantees up to 95% for start-ups in cooperation with the four banks (15% of the risk borne by the lending bank), or 85% for existing SMEs (25% of the risk borne by the lending bank). The SSELGS has been in operation for the past 26 years. It has been created together with the Export Credit Scheme (ECS). Their initial capital amounted to SZL5 million for SSELGS and SZL13.5 million for ECS. Overtime, SZL12.4 million have been reallocated from ECS to SSELGS in light of the very few demand for export credit guarantee. Currently SSELGS capitalization amounts to SZL18,9 million with a total number of around 1,200 guaranteed loans (250 outstanding loans) for a global value of loans amounting to SZL100 million. The outstanding loan portfolio guaranteed amounts to SZL40.5 million for a maximum guarantee of SZL35 million. The leverage[64] of the SSELGS is very low (2.79% - was 3.29% in 2016) not because of reduced interest from the banks. Banks attribute SSELGS sluggish performance to a conservative disposition from CBS and cumbersome, slow and costly claim process. Currently delinquency rate is 5.28% and PAR 17%.

(b) **Regional Development Fund (RDF)**, under MoTAD, is supporting viable commercial projects – including infrastructure and income generation – in the regions. In 2015/16, GoS provided SZL80 million to the Fund, to deliver rural electrification projects in various communities. In the years to come, GoS will increase the allocation to SZL88 million. RDF financed 150 projects - 70% in infrastructure and 30% in income generating activities. RDF offers grants and supports water supply and sanitation, rural electrification, low level bridges, cattle dipping tanks, foot bridges, low level bridges, clinics and education infrastructure, grant funding in income generating projects. Prior to

[64] loan portfolio guaranteed on current capitalization - such a low exposure indicates an over-capitalization of SSELGS

2014 a number of problems had be recognized in the management of the RDF. Consequently in 2014 new regulations were approved by parliament for the RDF and in 2015 its management transferred to the Micro-Projects Unit (under Ministry of Economy & Planning) to administer the fund on behalf of MoTAD.

(c) **Youth Empowerment Fund** (YEF), under the MoSCYA, has recently been relaunched with a new Board, management team and business model after several years of being dormant. YEF is intended to offer seed money to young unemployed people to start businesses. The YEF was established in 2008 and targeted youth between the ages of 18 – 35 years. It aimed at contributing to the reduction of youth unemployment through the provision of business capital for qualifying individuals, associations and companies i.e. individuals SZL20,000, companies with three directors SZL50,000, associations with up to 10 members SZL100,000. The Fund was disbursed in Phases. In phase 1, 500 young people received loans in 2010 amounting to SZL5,800,000. Due to poor repayment rates the fund collapsed and was dormant until 2017. It now plans to restart full operations in 2018, under new leadership and a new business model.

Suspended / collapsed

(d) **Community Poverty Reduction Fund (CPRF)**, under the MoTAD, that was aimed at assisting communities in the different constituencies to embark on businesses meant to reduce poverty and enable the less privileged to access loans which they were failing to secure from commercial banks. It was intended to support viable cooperatives or commercial project schemes with the aim to create jobs. The revolving fund is now defunct and owed several millions as default was reportedly >70%. IFAD's RFEDP MFU conducted a study for the revival of CPRF and suggested the Fund should either be: out-sourced, re-capitalized or transformed to a fully-fledged micro finance provider. The MoTAD is currently considering a choice between these options.

D. Financial services in need of development

(i) Insurance

48. The insurance sector picked up after its liberalisation in 2005. The most recent entrant was awarded a license in 2014. There are now six long-term and three short-term insurers alongside one composite insurer - the former state-owned monopoly Swazi Royal Insurance Company. There are also two medical aid providers that are currently unregulated. Insurance companies are offering services such as home insurance, health insurance, car insurance, property insurance, construction insurance, life insurance and funeral schemes. Agricultural risk management products, such as weather indexed crop insurance are not yet at play.

(ii) Public credit registry / credit bureau

49. While Swaziland does not have an official credit register, TransUnion operates a private credit bureau, which operates from South Africa. It is estimated that around 46% of adults are on record[65]. Credit registries do not exist at the CBS or FSRA which would allow them to monitor the financial sectors' practices as regards lending, level of NPLs. Credit registry especially for the rural MSMEs will greatly facilitate banks in assessing creditworthiness of potential customers and therefore improve access to credit.

(iii) Secured Transactions and Moveable assets registry

50. There is not a modern unified legal framework for secured transactions in Swaziland, and there is no electronic registry to support banks and borrowers to be able to affect a security interest for a

[65] Ease of Doing Business. World Bank 2017. Number of individuals: 347,005. Number of firms: 3,608.

loan in real time. In practice, this means that the value of movable, and even immovable, property as a means to increase access to finance for SMMEs and others in Swaziland is not being exploited.[66]

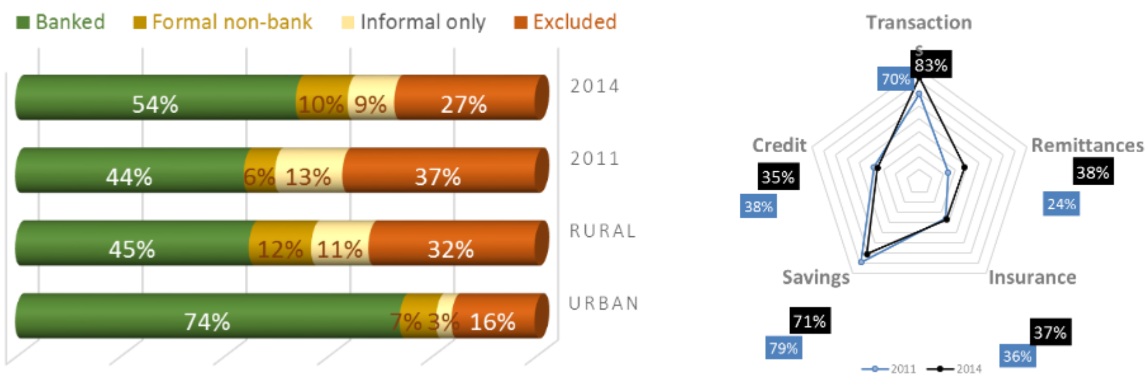
E. Financial Inclusion

51. Two consecutive surveys in 2011 and 2014[67], overview the evolution of financial inclusion in Swaziland. Important findings, indicate that the largest percentage of the population can access financial services. In fact, it is only 27% of the total population that is financially excluded – a particularly low percentage for the regional average. Financially excluded population has dropped by 10 percentage points between 2011 and 2014, indicating a constant improvement in this area. As expected, this percentage is double in the rural areas (32% in 2014) than in the urban (16% in 2014).

52. It is important however to delve a little on the definitions. In 2014 54% of the adult population are formally served which means they use any kind of services of a bank (even account holders), and/or a registered insurance company, a micro-finance institution, a foreign exchange bureau, and/or money transfer service similar to Western Union, Money Gram and mobile money services. 10% of the population have received services from any of the regulated micro-finance institutions, the Building Society, the insurance companies, the retail credit or remittance service providers. Finally, 9% of the population, only have or use financial products and/or services which are not regulated, e.g. burial societies (masingcwabisane), savings clubs/ groups (Tinhlangano), private moneylenders (shylocks), cooperatives, and farmers' associations. It is interesting to notice that while 74% of the adult urban population use or have formal banking products, only 45 % of the adult rural population have it.

53. Figure 11 indicates that although the adult Swazi population is broadly well banked at a national level, access to credit is nonetheless limited (with a deteriorating tendency). Usage of financial services per category shows that only 35% of the adult population has access to credit (38% in 2011) while 83% (70% in 2011) use the financial sector only for transactions and 71% (79% in 2011) only for savings. Other services include insurance that is used by 37% of the adult population and remittances that have increased to 38% in 2014 from 24% in 2011.

Figure 11: Access to Finance (2011-2014, rural/urban 2014), Usage of Financial Services per category



Source: FinScope 2011, 2014

54. An in-depth look into the data illustrates that only 12% of adults use formal credit, while 19% make use of informal credit and a further 22% only borrow from family and friends. Around two thirds of adults do not use any credit at all mainly because of fear of the financial system. Out of the 60% that do not borrow at all, 43% proclaim fear of debts and 6% don't want to become a defaulter; 37% would not be able to pay back the money, 4% do not believe in borrowing money and 2% believe that

[66] FSDIP. World Bank 2015.
[67] FINSCOPE by Fimark Trust, commissioned by IFAD's RFEDP MFU.

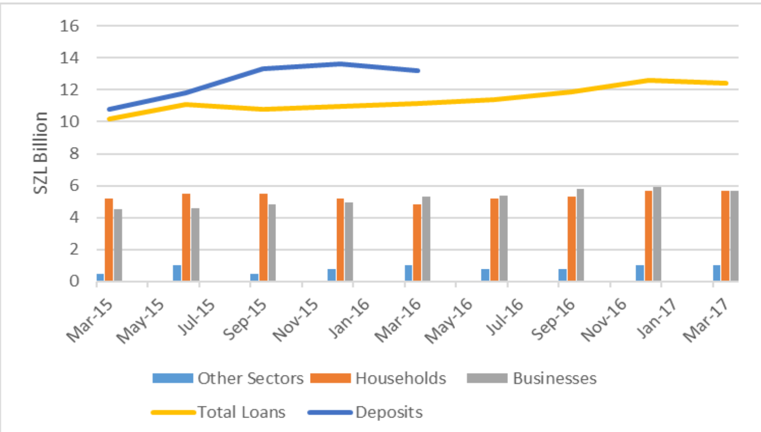
borrowing money is shameful; 17% can pay living expenses with what they have and 6% don't need to borrow; finally, 13% don't borrow because they are not working and 4% for no specific reason.

55. Savings accounts reach deepest into the adult population with 39% of adults saving in formal institutions; 11% saving only in informal savings groups and yet another 18% only keeping money at home. Only a third of adults do not save at all. Formal insurance reaches 17% of adults. This number is fairly high compared to many other developing countries. The reach of community-based risk pooling in the form of burial societies is, however, low by regional standards with 5% of adults to belong to a burial society. 78% of adults don't take any risk cover at all. As for remittances, 12% of adults use formal remittance products and a further 4% use informal products only. Most remitters (22% of all adults) send money through informal methods, that is, by taking cash in person or asking a travelling friend or family member to carry cash to the recipient; while 64% of adults do not send or receive any remittances.

56. Data reveal that it is not limited access to finance that impedes development in Swaziland, it is rather limited access to credit, or more precisely limited access to quality financial services i.e. lack of financial inclusion. As the financial service industry is maturing in the country, a number of financial products and services appear in the market, offering prolific choices to consumers. However, increased access and more choice do not automatically translate into effective use. Simply opening an account does not mean that the account will be used to improve livelihood. Effective use is often hampered by asymmetries of information as well as unsuitable product features or accessibility (for example, minimum balances, age restrictions, affordability, distance to branch, etc.).

57. Quality of service would imply correct market segmentation and targeting of customer service. Relevant data on the density, needs, habits and disparities of each segment of the Swazi population and especially of the rural communities, are currently unavailable. Empirical observation only suggests that the rural demand is segmented between micro and very small enterprises along with smallholders that struggle to secure sustenance. Qualitative and quantitative demand-side analysis suggests that the Swazi adult population on the whole faces severe budget constraints. A household often makes a living through more than one means and only a minority of adults have consistent, formal income sources. Along these lines each of the strata of the beneficiary structure would require different mixes of the following financial services: asset protection, payment and transaction mechanisms, insurance from catastrophic events (health, natural events, etc.), start-up capital, consumption smoothing, risk protection, safe saving. Low usage of credit is indicative of a number of barriers to uptake: rural communities may or may not be aware of the various financial products available while failed efforts to access credit for reasons that are not clear to the applicants have developed negative perceptions (banks not transparent, charge high fees and are not targeted at the ordinary man). The rural communities not only need the development of financial tools, they need well-performing and cost-effective financial tools that are made available to them.

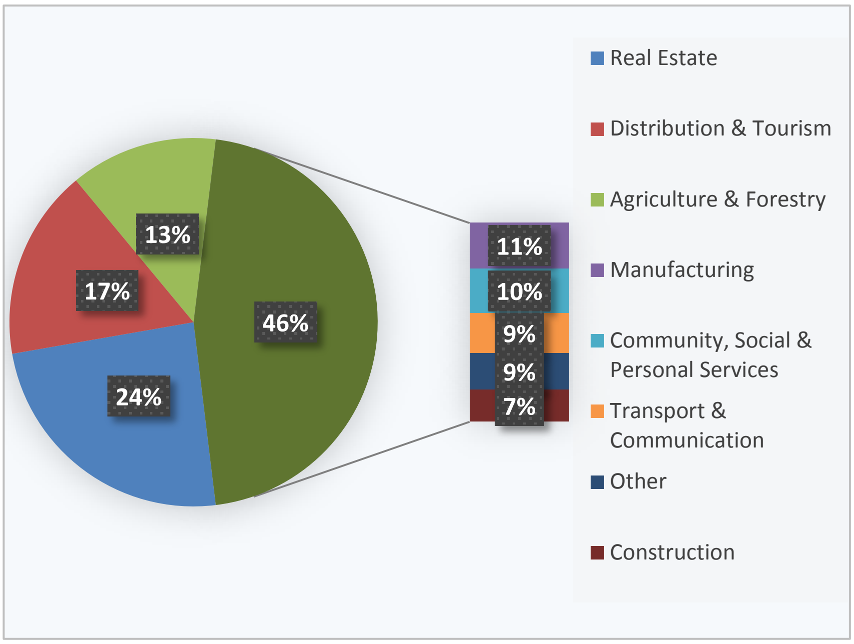
Figure 12: Private Sector Credit



Source: CBS, Annual Report 2016

58. Private sector credit has been increasing for the past couple of years with consumer loans being sometimes higher than investment loans. The rate of increase of private sector credit is relatively steady and slow. Deposits increase at a faster rate, indicating increasing liquidity in the banking system.

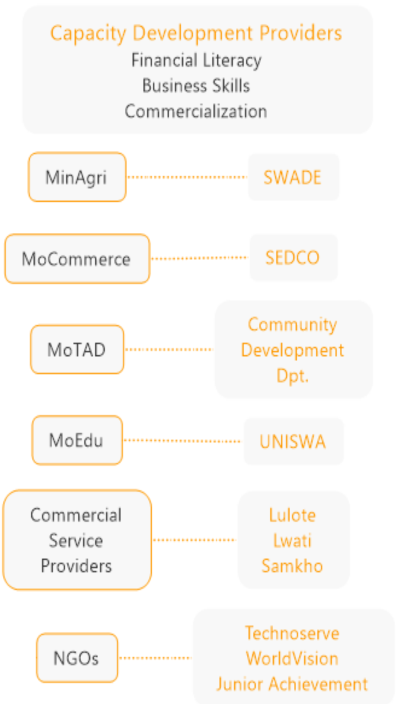
Figure 13: Loans and Advances by Type of Industry



Source: CBS Annual Report 2016

59. Figure 13 indicates that across sectors credit is directed mainly (24%) to real estate development. Distribution and tourism follows with 17%, while agriculture and forestry comes third with 13% of total loans and advances in 2016. Given that 70% of agricultural credit is tapped by the sugarcane industry that leaves a mere 3.9% for the rest of the agriculture related enterprises putting them in the last position after construction which holds 7%[68].

60. Banks find it a costly and risky to serve the rural MSMEs and the poor, and are hesitant to engage on anything but the sugarcane value chain. They allege a) uncertainty in regard to the repayment capacity of rural borrowers, with irregular/volatile income streams and expenditure patterns; b) lacking credit information, driving up default risk; c) lack of collateral and widespread financial illiteracy; d) high transaction costs due to small loan sizes, high frequency of transactions, and heterogeneity of borrowers; e) expensive formalities imposed to MSME book-keeping; and f) poor business and financial literacy on the part of entrepreneurs which makes it difficult to develop and carry out credible business plans.



(iv) Business and Financial Literacy Training

61. There are numerous private and public entities offering training on business development and financial literacy for the rural MSMEs and the smallholders, with the aim to improve their productive capacity and their ability to access credit. The offered training modules are however uneven and disparate either because they are targeting groups with different skill sets/level, or are intended to cater for specific project needs or ministerial priorities. The outcomes are consequentially uneven and often create frustration to both unsuccessful loan

[68] The sugarcane industry is the most established agricultural industry. Relevant credit is directed mainly to large firms (notably the Swazi Sugar Association), perceived to be of lower risk than other agricultural products

applicants, and credit officers who complain about substandard business plans and financially illiterate rural entrepreneurs.

62. The Small Enterprise Development Company (SEDCO – established in 1970) under the MoCIT, offers free business support services and marketing assistance to small and medium scale entrepreneurs with the vision and prime focus to create jobs and sustainable employment in the rural agribusinesses. Similarly, the Ministry of Tinkhundla, Administration and Development runs training courses at community level through its department for community development.

63. A number of NGOs run training courses as part of implementing projects for international development institutions. TechnoServe under the food security project funded by the EU trains 940 smallholders and 2,000 micro-entrepreneurs. JUNIOR Achievement Swaziland, a non-profit organisation that instils entrepreneurial culture in youth empowerment has launched a new division in their programmes, the business development services. JA is well known across the country for instilling economic and financial literacy to pupils. PeaceCorps is training three community groups on basic business skills needed for start-ups to develop income generating projects and create employment within the community. Africa Works include business skills training as part of their inclusive cluster development interventions, so far implemented in the vegetables, honey and broiler chicken sectors in Swaziland.

64. Private sector Business Service Providers include: The Commonwealth Development Corporation (CDC - London) established Mananga Agricultural Management Centre in 1972 as an International Management Development Centre catering for middle and senior managers. Mananga now operates as a Limited Liability Company registered in Swaziland, and offers relevant training courses. Lulote, established in 1986 for the promotion of an entrepreneurial culture to both existing and aspiring entrepreneurs, trains on ILO accredited courses on generating business ideas, starting new businesses or improving on existing ones, developing business plans, market research, client profiling and financial statements. Lwati Training Institute, offers a comprehensive range of courses for middle and senior managers, as well as for supervisory level staff. Samkho Business Services also offers relevant training courses.

65. The University of Swaziland (UNISWA) was established in 1982 by an Act of Parliament of the Kingdom of Swaziland with a mandate to teach, conduct research and carry out community service. UNISWA operates a Consultancy and Training Centre and an Entrepreneurship and Business Development Centre.

Appendix 2: Poverty, targeting and gender

A. Demography

1. **Population.** According to the last census Swaziland´s population in 2007 totalled 1,020,102 people of which 78% lived in rural areas. Population projections indicate an increase to 1,145,970 by 2017 with 76% of the populations expected to be in rural areas. Actual updated census data from the 2017 census will be available before the end of the year. Almost 85% of the population is of the Swazi ethnic group[69]. Other ethnic groups include the Sotho and the Zulu; the common Bantu origin coupled with the history of this small country together with its strong Monarchy and set of entrenched cultural traditions largely bind all Swazis in a common Swazi identity in which the notion of ethnic group loses relevance.

2. Life expectancy at birth was 57 years of age (2015)[70]. Life expectancy fell to a low of 46 years as recently as 2004. It has improved substantially since and is now approaching its previous record high in 1990 of 60 years. In Swaziland, household size averages 4.7 people[71].

3. The country has experienced an increase in child-headed households as a result of the HIV/AIDS pandemic. One in three children in Swaziland aged 0-17 do not live with either biological parent; 20.4% of the under-aged (<18) have lost one or both parents[72].

B. Poverty

4. **Poverty levels and distribution.** Despite positive trends in poverty alleviation with a 6-point drop between 2000 and 2010, 63% of the country´s population continues being living under the national poverty line of E461. Rural poverty ranges between 71-76% across regions[73].

5. Poverty is not equally distributed throughout the country. The south-eastern regions of Lubombo and Shiselweni have the highest proportion of people living in poverty mainly due to agro-ecological characteristics of these regions. However, the highest absolute number of poor people lives in Manzini and Hhoho regions, explained by the higher population density characterizing those areas[74].

Table 1: Summary demographic and poverty data per Region (based on national poverty line), Swaziland.

Region	Population 2007	Population density (people per km2) 2007	% People living in poverty 2010	N. People living in poverty 2010
Lubombo	205,974	35.63	73.5	151,311
Shiselweni	206,642	55.1	68.8	142,123
Hhohho	279,214	78.24	62.0	173,140
Manzini	313,043	77.99	57.7	180,614

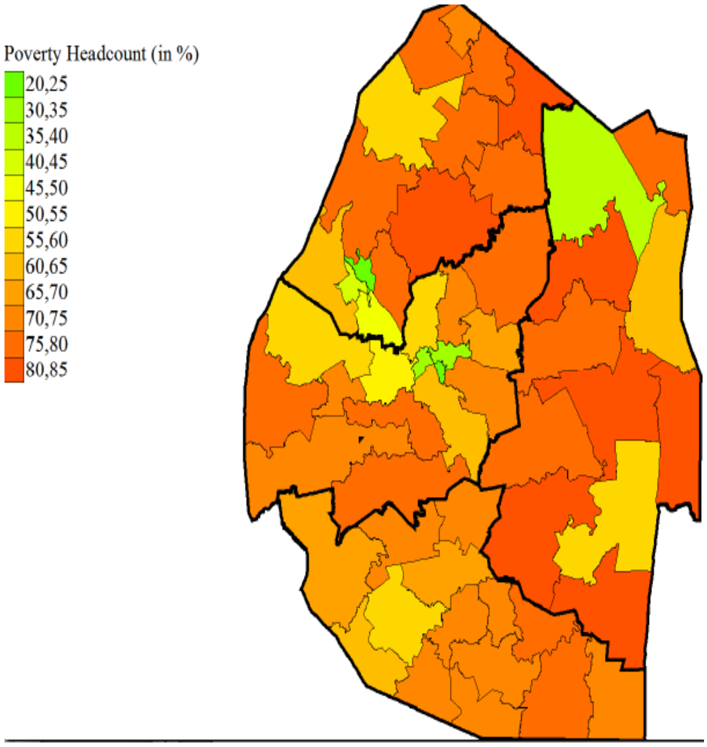
Source: Central Statistics Office, 2011.

[69] Central Statistical Office (no date). Swaziland Population Projections 2007-2030.
[70] World Bank data.worldbank.org.
[71] Central Statistical Office and UNICEF. 2016. Swaziland Multiple Indicator Cluster Survey 2014. Final Report.
[72] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[73] Central Statistical office, Feb 2011. Poverty in a Decade of Slow Economic Growth: Swaziland in the 2000´s.
[74] Ibid.

6. A closer look at poverty data also indicates that poverty levels *between* and *within* Tinkhundlas / Constituencies are also not homogeneous[75]. It is estimated that 89% of the poor live in rural areas[76].

7. **Food Poverty.** Poverty in Swaziland is not only widespread, but also deep: it is estimated that one in two people living under the poverty line are actually unable to meet essential food requirements. Approximately 30% of the population is severely/food/ultra-poor.

Figure 1: Poverty headcount Tinkhundla level (2010).



Source: Central Statistics Office, 2011. 2010 Swaziland Poverty and MDG Maps: Region, Tinkhundla and Major Area.

8. In 2010, 30% of households living under the poverty line were headed by women[77] highlighting the relative – and not absolute vulnerability of women headed households at the time. It is however possible that this figure may have changed since then; in fact, community members interviewed during the design mission indicated a perceived increase in women headed households in the last 10 years due to AIDS.

9. Interviewees also indicated that single-adult headed households (led by an older person, person with disabilities or woman), as well as youth or child-headed households are common among the poor. There is wide recognition of poverty alleviation in Swaziland not having been pro-poor in the 2000s[78].

10. **Causes of monetary poverty.** The lack of widespread profitable opportunities for rural Swazis and reliance on low yield agriculture in a context affected by adverse climatic conditions (particularly drought), high dependency rates and low level of education appear to be the main barriers to achieving better livelihood outcomes. The situation is worst for smallholder farmers living in areas with challenging agro-ecological characteristics. While much progress has been made in building the capacity of the agricultural sector in the country in the last decades, appropriate additional investments – and market opportunities - are required for the agricultural sector to substantially increase the productivity and profitability among rural smallholder farmers.

11. **Multidimensional poverty (MDP).** The country has made significant progress in enabling access to basic services and the improvement of living conditions in this small country. As a result, and different from other poverty-stricken countries in East and Southern Africa, Swaziland´s multidimensional poverty in 2017 is estimated at 16%[79] (Mozambique´s MDP in 2017 is over 69%,

[75] Annex 2.2 provides a more detailed distribution of poverty below the Tinkhundla level (major areas) based on 2010 data. Source: Central Statistics Office, 2011. 2010 Swaziland Poverty and MDG Maps: Region, Tinkhundla and Major Area.
[76] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[77] Central Statistical Office, Feb 2011. Poverty in a Decade of Slow Economic Growth: Swaziland in the 2000´s.
[78] Ibid.
[79] University of Oxford, 2017. OPHI Country Briefing 2017: Swaziland. Global Multidimensional Poverty Index (MPI) At a Glance. Oxford Poverty and Human Development Initiative (OPHI).

Tanzania 56%, Malawi 53%[80]). This indicates that it is only a small proportion of the population that continues not having access to essential services - predominantly to health, manifested through high child mortality rates - and need to improve living standards, particularly, access to potable water, sanitation, cooking fuel and electricity. Likewise, the country´s MDP rate also indicates that overcoming monetary poverty in Swaziland requires concerted and focused efforts in rendering rural livelihoods more productive and profitable.

12. While the introduction of universal free education has facilitates access to primary schooling, access and completion of secondary education is problematic among the poor due to associated costs. In this respect, the Government of Swaziland (GoS) faces less challenging prospects to overcoming poverty than many other countries with comparable poverty levels.

13. Swaziland continues being characterised by low human development ranking 148/188 in the Human Development Index with a value of 0.541[81]. Of interest in this respect are findings from the Labour Force Survey of 2013/4 indicating unemployment of 28%, which is substantially higher than neighbouring countries, and also that 29% of the country's employed labour force is considered to be under-skilled. Both patterns are consistent with the country´s low educational attainment levels[82].

C. Rural Livelihoods

14. **Rural livelihood strategies.** Subsistence agriculture continues being the main driver of rural livelihoods in Swaziland, engaging approximately 60% of the population. The widespread predominance of small-scale, low yield, low input use, predominantly rain-fed agriculture, vulnerable to adverse climatic conditions, combined with other activities providing low returns and the lack of profitable alternatives and low asset base of the majority of rural dwellers, limits the ability of smallholder farmers to make sustainable economic progress and enhance resilience to shocks.

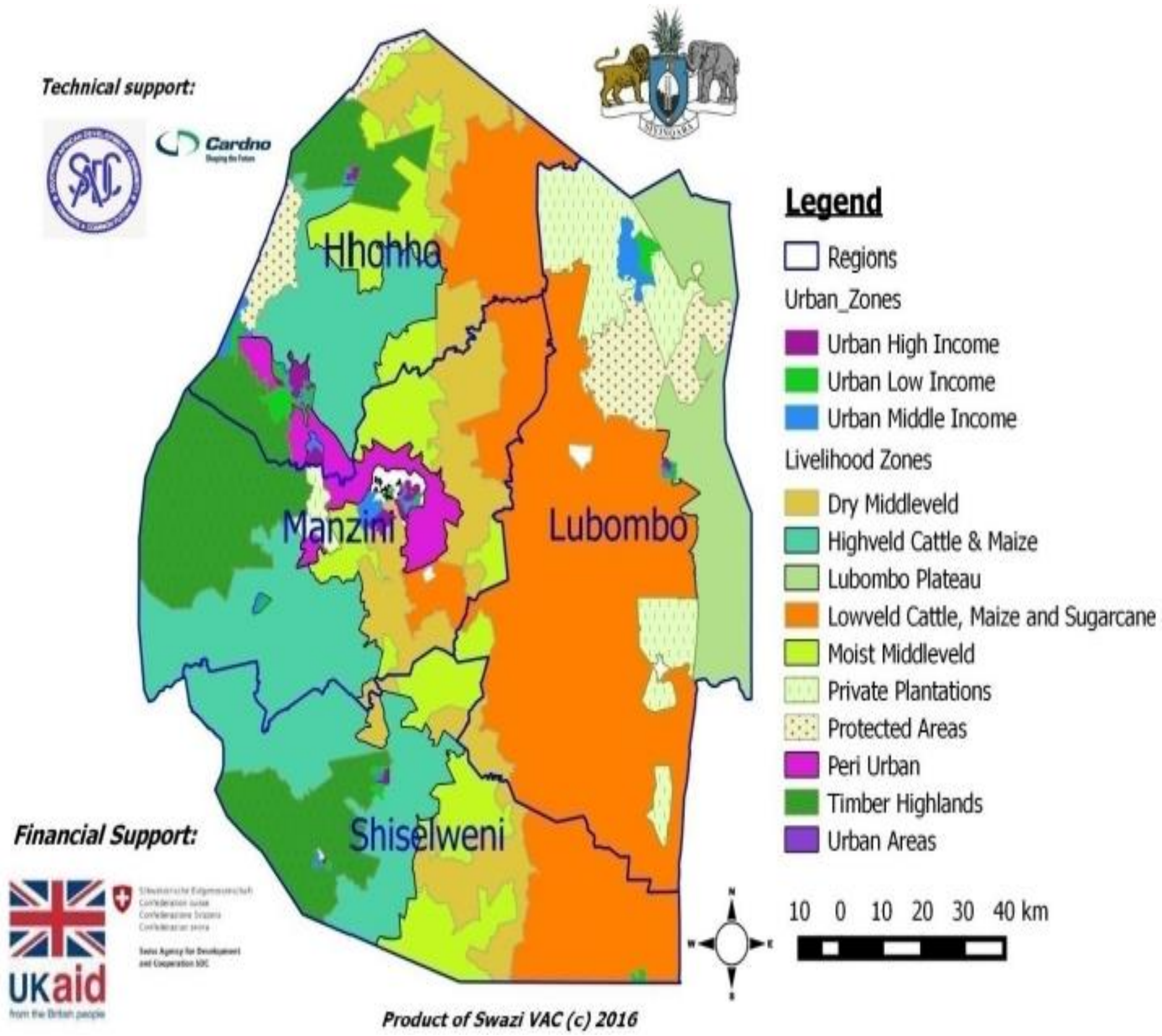
15. Statistics available for 2014 indicate that 78.4% of rural households own land and 73.3% animals, 94.4% a mobile phone and 65% have access to electricity[83]. Sixty-three per cent (63%) of rural households have access to improved water sources.

16. Access to credit for the rural smallholders and micro, small and medium enterprises (MSMEs) is a serious impediment in the efforts for creating sustainable employment, improving food security, and reducing rural poverty. Although the financial sector is dynamic and captures more than 65% of the active population, it is tapping mainly on transactions; access to adequate forms of credit for smallholder farmer engagement in agriculture are extremely limited[84].

17. A mapping exercise carried out in 2016 identified seven rural livelihood zones in the country as seen in Figure 2.

[80] University of Oxford, 2017. OPHI Country Briefings 2017 for Malawi, Mozambique and Tanzania.
[81] UNDP, 2016. Human Development Report 2016. Human Development for Everyone. Briefing Note for Countries on the 2016 Human Development Report, Swaziland.
[82] Ministry of Labour and Social Security, (no date). Labour Force Survey 2013/14.
[83] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[84] http://www.finmark.org.za/sites/finscope/consumer_swaziland/?title=FINSCOPE%20CONSUMER Accessed 19th July 2017.

Figure 2. Rural Livelihood Zones, Swaziland (2016).

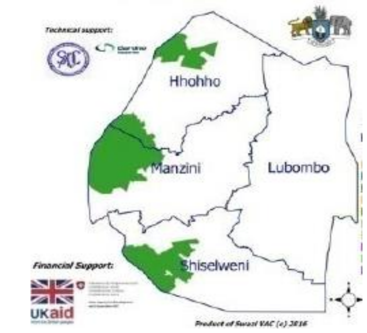
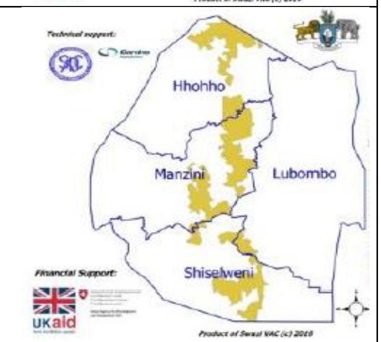


Source: Swaziland Vulnerability Assessment Committee, 2016

18. Activities used by households of different socio-economic groups to generate cash and access food differ according to the opportunities conferred by each livelihood zone[85]. Livestock sales together with formal and self-employment and seasonal labour constitute the main strategies across socio-economic groups. Income associated to crop production and sale is marginal, especially for very poor and poor households. Cash transfers, remittances and gifts play important roles among those living under the poverty line. Women and youth have lower access to land (and less tenure security) and less access to assets and opportunities[86].

[85] Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles.
[86] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector. Youth Policy Press, 2015. Youth and Public Policy in Swaziland.

Table 2: Key rural livelihood features, per livelihood zones in Swaziland (2016)

Rural Livelihood Zones	Key Features	Geographic Location
Highveld Maize and Cattle	- One of the most productive areas of the country for maize for those who can afford fertilizers in appropriate scale. No droughts but crops affected by severe hailstorms. Rocky terrain limits area suited to crops. - Farmers also grow beans, sweet potatoes and groundnuts. Wild guavas are also a source of cash and have large numbers of large and small cattle. Better off households (HHs) sell milk in local markets and have employment; poorer HHs rely on local low wage and seasonal employment due to low education; small-scale handicrafts production important and scalable. - Densely populated area. - Area is mostly food secure, but poor HHs generally consume their harvest by December having to face school fees and buying food as of January.	
Timber Highlands	- At an altitude of 1,400 metres above sea level, cold environment and rocky soil is suitable for timber and wood trees. - This tree industry drives the local economy; dwellers include people coming from other parts of the country, but wages are low, so farming is important. However, there is limited arable land and thus, limited room for more efficient markets to stimulate production by smallholders. - Zone is relatively food secure.	
Moist Middleveld	- Altitude of 700-800 metres above the sea level, rainfall >900 mm and moderate temperatures make the area the most suitable in the country for maize production, sweet potatoes, beans and groundnuts. - Moderate population density, leaving little room to expand arable land available among smallholders. - Only the southern area of the livelihood zone is affected by drought. Some areas become impassable during the rainy season.	
Dry Middleveld	- Area is drought prove; conditions are not very suitable for maize production. Thus, much of the arable land in the hands of smallholders is not cultivated. Investment in farming inputs is risky. Costs of inputs has discouraged traditional crops; more engagement in sugar. - Higher density population; migration is common. - Limited livestock held mostly by better-off families although sector is constrained by disease and quarantine regulations. Animals sold out of the area.	

Lowveld Cattle and Maize	- Occupies largest surface and is sparsely populated. - Low elevations, hot temperatures and erratic rainfall, conditioning production of main crop: maize. - Area more suitable for cattle raising than cropping. - Recent halt of cotton production has had important effects in the local economy. Expansion of smallholder sugar cane production has created seasonal employment. - Highly affected by recent droughts, seriously affecting engagement in cropping. - Poorer households highly dependent on food aid in recent years; no plans in place for continued food aid support. - Begging, increased remittances and withdrawal of children from school are some of the coping strategies used in this area.	
Lubombo Plateau	- Small area bordering Mozambique lying above the Lowveld with low to medium rainfall. - Local economy revolves around sugar industry. Potential for livestock sector although challenges with disease and cross-border cattle rustling. - Sparse population. - Mix food cropping (maize, pulses, sweet and Irish potatoes, leafy vegetables, melons / pumpkins). - Affected by drought, has required food aid in the past. - Isolated from main markets and urban centres. - Good productive potential; needs markets. - Begging and increased dependence on remittances are common.	

Source: Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles

19. Concerted efforts need to be invested to address all key gaps among smallholder farmers: engagement in climate resilient activities by securing access to land, inputs and equipment; development of technical skills; appropriate linkages to markets and access to appropriate forms of credit, savings and remittance for economically active households to make a sustainable leap out of poverty.

D. Common Shocks / Risks Affecting Rural Livelihoods.

20. **Climatic conditions.** Even though the most recurrent climatic condition affecting rural Swazi households is drought, the country faces other climatic phenomena, which negatively affect agricultural production, including heavy rains, storms and floods. Droughts provoked a 10% drop in maize production between in the 90s. More recently, the 2015 drought, characterized by a 50% drop in rainfall, was the lowest in the last five years. River flows lowered, and water levels in boreholes and springs dropped. The main consequences of the latest dry spell include an 80% reduction of land cultivated, an estimated 64% reduction in production, a 30% decrease in agribusiness revenues and death of 7.3% of cattle, among others[87]. As climate change projections forecast an increase in mean annual temperature and longer dry seasons, the frequency of dry spells is likely to increase and such losses would become regular unless adaptive measures are taken This calls for the promotion of

[87] Deputy Prime Minister´s Office, February 2016. Swaziland Drought Assessment Report: Rapid Assessment 2015/16 Season.

suitable agricultural activities in strategic locations with more favourable climate or locations with capacity to manage droughts more effectively (for example, with access to irrigation or water points), and the introduction of drought tolerant crops/varieties in areas with harsher agro-ecological conditions. Finally, the promotion of agricultural activity needs to be matched by Government corresponding infrastructural investment.

21. Adverse climatic conditions affect the economically active who rely more on agricultural production the most – not the poorest and the better off, whose livelihood strategies depend more strongly on other activities and income streams[88].

22. **Rise in food prices.** During the 2015/16 drought, Swaziland witnessed an important increase in food prices[89] hindering access to foodstuff, especially among households whose livelihoods depend strongly on providing agricultural labour and/or their own food production.

23. **Food insecurity.** Overall most food consumed by rural Swazi households is accessed through markets or received in kind in exchange for labour, especially in areas isolated from markets (Timber Highland and Lubombo Plateau). The geographic areas most affected by food insecurity are the low-lying Lowveld Cattle and Maize and Lubombo Plateau livelihood zones. Food aid, including school feeding programmes in rural areas have played an important role in meeting food security gaps[90].

24. The combined effects of the dry spell of 2015/16 and the increase in food prices decreased access and availability by households to foodstuff. Sixty-eight per cent (68%) of households reported a decrease in the number of meals and 63% changed the types of food consumed. Livelihood deficits and thus food insecurity in 2015/16 were expected among almost 50% of the population (550,744 people), while 275,274 (approximately 24% of the projected population) were expected to face food deficit[91].

25. In addition to the common linkages between food insecurity and malnutrition, there is also evidence that the effects of last year´s drought enhanced gender inequality: pressure at household level due to poor availability of food increased Gender Based Violence (GBV). Equally concerning is the rise in people missing *their* clinical HIV care and treatment appointments and collection of anti-retroviral drugs as money otherwise used for transport was diverted to food purchase[92].

26. **Malnutrition.** Stunting, which impairs cognitive development affects one in four children (25.5%)[93] as is expected to have high economic costs for the country; 7.2% suffer from severe stunting. Nine per cent (9%) of children under five are also overweight[94]. Exclusive breastfeeding for infants under 6 months stands at 63.8%[95].

27. **HIV/AIDS.** In Swaziland, the burden and effects of HIV/AIDS cannot be ignored: Swaziland continues having the highest prevalence rate of HIV in the general population worldwide (26%). Incidence and prevalence data highlight the feminine nature of the epidemic. HIV prevalence in women is 15 points higher than in men (38% versus 23%)[96].

28. Trends between 2005-2010 point to a decrease in HIV incidence among youth but data still points to the high vulnerability of young women to HIV acquisition due to transactional and coerced

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[88] Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles.
[89] Deputy Prime Minister´s Office, February 2016. Swaziland Drought Assessment Report: Rapid Assessment 2015/16 Season.
[90] Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles.
[91] Deputy Prime Minister´s Office, February 2016. Swaziland Drought Assessment Report: Rapid Assessment 2015/16 Season.
[92] Deputy Prime Minister´s Office, February 2016. Swaziland Drought Assessment Report: Rapid Assessment 2015/16 Season.
[93] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[94] Ministry of Economic Planning and Development, The Cost of Hunger in Swaziland: Implications of Child Undernutrition for the Implementation of the National Poverty Reduction Strategy in Swaziland.
[95] Central Statistical Office and UNICEF. 2016. Swaziland Multiple Indicator Cluster Survey 2014. Final Report.
[96] Ministry of Health, November 2012. Swaziland HIV Incidence Measurement Survey (SHIMS) First Findings Report.

sex. Even though 2014 data denotes that 14.5% of women aged 15-24 had sex with a partner that was 10 or more years older[97], interviewees in the field interviewed in 2017 indicated that relationships between young women and older men were actually common. It is unclear whether trends have changed in the three-year period or if the qualifiers given by interviewees constitute a symptom of lack of acceptance of intergenerational relationships at community level.

29. HIV prevalence among women <25 is 26%, against 5% among male peers[98]. Knowledge about HIV transmission among youth is lower than desired: 50% of people aged 15-24 correctly identify barriers to avoid sexual transmission of HIV[99]. Over 65% of women and 54.5% of men aged 15-49 have been tested for HIV know their HIV status. Demand for testing is higher among youth aged 15-24: 80.2% and 62.3% female and male youth, respectively. Condom use among women is lowest in the age bracket 15-24 (69%) and for men between the ages of 25-49 (66%). HIV positive men are less aware of their HIV status than women (50% against 69%) but show higher enrolment rates for antiretroviral (ARV) treatment than women once they know they are HIV positive (63% versus 49% in women) [100].

30. HIV/AIDS associated stigma continues to pose a development challenge as only 36% of people aged 15-49 have accepting attitudes. Discriminatory attitudes towards people living with HIV continue to be common[101]. Information obtained from interviewees points to pregnant mothers as one of the groups with the highest defaulting rates from HIV care and treatment services putting themselves and their children at risk of HIV and AIDS.

31. While it is anticipated that substantial gains will be obtained from newly adopted treatment guidelines in line with international strategies and protocols, along with the foreseen expansion of HIV services, positive health outcomes require addressing behavioural transmission risks. In Swaziland, information available at present indicates that key areas of attention include increasing youth knowledge around HIV prevention, care and treatment; creating demand for HIV testing especially among men; adherence to HIV care and treatment services among pregnant women and young men and increasing HIV disclosure in couples.

32. Widespread poverty, gender inequality, lack of time and availability of limited resources among women – including time - to take care of themselves, zero-status disclosure related stigma, and lack of access to sufficient food to take with ARVs, could be some of the reasons explaining the disproportionate vulnerability and effects of HIV and AIDS on women[102].

33. The National Emergency Response Council on HIV and AIDS (NERCHA) leads coordination of the country´s multisector response, under the Extended National Multisectoral HIV and AIDS Framework (eNSF) 2014-2018[103].

E. Women and Youth

34. **Women.** In Swaziland, women are the prime caretakers and household managers and are ultimately responsible for feeding their children. However, and while they also play a crucial role in food production, women have lower access and control than men over productive resources. Examples of this include the fact that that married women cannot request land from chiefs without their husbands once they adopt the husbands´ last name at marriage. Men allot women small portions of land at household level and rights over land are passed on from fathers to sons.

[97] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[98] Ministry of Health, November 2012. Swaziland HIV Incidence Measurement Survey (SHIMS) First Findings Report.
[99] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[100] NERCHA (no date). The Extended National Multisectorial HIV and AIDS Framework 2014-2018.
[101] Central Statistical Office, 2015. Swaziland Multiple Indicator Cluster Survey 2014, Key Findings.
[102] Central Statistical Office, May 2008. Swaziland Demographic and Health Survey 2006/7. Ministry of Health, November 2012. Swaziland HIV Incidence Measurement Survey (SHIMS) First Findings Report. Bicego GT, Nkambule R, Peterson I, Reed J, Donnell D, Ginindza H, et al., 2013. *Recent Patterns in Population-Based HIV Prevalence in Swaziland.* PLoS ONE 8(10): e77101. doi:10.1371/journal.pone.0077101.
[103] NERCHA (no date). The Extended National Multisectorial HIV and AIDS Framework 2014-2018.

35. Married women cannot request land from chiefs without their husbands once they adopt the husbands' last name at marriage. Men allot women small portions of land at household level; rights over land are passed on from fathers to sons. Labour intensive agricultural tasks such as planting, weeding and hand-tillage are assumed by women while men are responsible for tasks requiring more strength. Men also assume agricultural tasks once mechanization is integrated. Women tend to own animals of low economic value (mostly chickens) while men are the primer owners of cattle.

36. Access to inputs is limited among women as their use is associated to engagement at commercial level/production of cash crops, which is an area dominated by men. Access to extension by women is also problematic; only 4% of extension workers are female. More broadly, extension training and service provision does not integrate gender sensitive approaches. Climate change is expected to affect women more acutely as prime food producers and increase inefficiencies in other domains such as increasing distance to access water and wood fuel[104]. Women have difficulties in accessing credit due to the absence of collaterals; as a result, rural women largely resort to participating in community credit and savings groups.

37. Decisions on how cash earned by men and household assets are used are, are in general, made by men[105]. Women´s participation and influence in decision-making processes at household and at community level is limited due to the combined effects of customary norms and in the case of community level processes, due also to lack of time to participate in general community level events. Even when women are more numerous in community groups (such as savings and credit groups or natural resource management groups) men would expect and often hold leadership positions[106].

38. Overall participation of women in the country´s labour force is almost 10 points lower than men (46% versus 55.3%) - with the exception of lower level occupations. Also, unemployment rates are higher among women (39.3% among women and 32.5% among men in rural areas). Women earn in average 60% less than men across almost all employment categories, including agricultural employment.[107]

39. When facing food insecurity, households tend to prioritize the allocation of more nutritious foods to men, exposing women, including pregnant women, as well as children, to higher levels of nutritional deficiency[108].

40. One in three women participating in a study conducted in 2007 on violence against women found that over 30% of participants had suffered some form of sexual violence as minors with most cases not being reported to anyone primarily due to lack of recognition of the experience constituting violence; perpetrators are generally known to the victim[109]. As referred to above, GBV has been noted to increase in situations of food insecurity[110].

41. Interviewees reached during the design mission also indicated that tensions in couples are common when household income increases in rural areas, this was described in relation to smallholder farmers engaged in the sugar cane production, and beyond.

42. Anecdotal evidence collected during the design mission indicates that middle aged and older women often stay behind in rural areas with grandchildren (HIV orphans or children born to young unmarried daughters), largely relying on their own limited capacity to generate income and food which is supplemented with the little money that their daughters may be able to send from the city.

[104] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector.
[105] Central Statistics Office, 2008. Demographic Health Survey Swaziland.
[106] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector.
[107] Ministry of Labour and Social Security, (no date). Labour Force Survey 2013/14.
[108] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector.
[109] UNICEF, 2007. A National Study on Violence Against Children and Young Women in Swaziland.
[110] Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles.

43. Data from 2014 indicates that 45.6% of households in Swaziland are headed by women[111]; In 2010, approximately 30% of households under the poverty line were headed by women highlighting the relative – and not absolute - vulnerability of women headed households (WHH), i.e., being a woman headed household does not necessarily mean being poor. Yet, there are indications that poor households headed by women tend to be worse-off than male-headed households under the poverty threshold[112]. These WHHs face specific constraints that male headed households do not face in terms of the agriculture production gap. In addition, HIV and AIDS have left an army of orphans that other households have had to absorb - including WHHs. It was repeatedly reported in community focus group discussions during the design mission that poor households are characterised by being headed by a woman who is responsible for many children, some of her own, others being grandchildren or from the extended family or neighbours. But even non-poor WHH bear this extra burden. When a WHH that is vulnerable to poverty or poor is hit by an external or internal shock (from the external context or something changing in the context of the household structure or wellbeing, respectively), there is a greater probability of depleting assets quicker and adopting negative coping strategies such as transactional sex. Consequently, it is more difficult for these households to recover. Accordingly, FINCLUDE will have a particular focus on supported women headed households and young women to make successful productive investment and begin to build their own resilience.

44. As documented for Southern Africa, lack of access to male labour among women headed households contributes to the gender gap in agricultural productivity[113]. In Swaziland this is in fact documented in relation to constraining engagement in fish production due to the absence of male labour to dig fish-farming ponds. The use of post-harvest technologies such as maize shellers is more common in male headed households. Women headed households are also known to face marketing gaps due to limited access to transport[114].

45. The country has ratified key international and regional conventions such as the Convention on Protocol on the African Charter on Human and People's Rights on the Rights of African Women in Africa the Elimination of all forms of Discrimination Against Women (CEDAW), the SADC protocol on gender and development and the Beijing Declaration and platform of Action.

46. A major step was taken in Swaziland's Constitution of 2005 by abolishing the minor status of women and granting equal rights to citizens irrespective of their sex. A National Gender Policy was adopted by the GoS in 2010. Substantial efforts have been made in drafting laws to protect the rights of women, however, approval of documents such as the Domestic Violence, the Sexual Offences Bill and the Succession Act as are still pending.

47. The Department for Gender Coordination and Family Issues within the Deputy Prime Minister´s Office holds the responsibility of leading gender mainstreaming and the promotion of gender equality in the country. But gender-mainstreaming mandates are still unclear at sector level. The identification of gender focal points in government ministries has been seen as necessary but not uniformly appointed. In addition, skills to render sector programmes sensitive to women´s needs are yet to be developed; corresponding budgetary allocations are also yet to be allocated. Currently there is not a formal focal point for gender mainstreaming at the Ministry of Agriculture. Instead, the Home Economics department, which deals with the improvement of household wellbeing, by default, appears to be considered as in charge for issues pertaining to women.

48. In sum, in rural Swaziland women lag behind in terms of access to assets and opportunities, and enjoyment of the benefits of their efforts; they are often overburdened and overstretched and have limited participation in decision-making. The combined effects of poverty together with ascribed gender roles and social norms thus limits women´s self-development and their capacity to more

[111] Central Statistical Office and UNICEF. 2016. Swaziland Multiple Indicator Cluster Survey 2014. Final Report.
[112] Central Statistical Office, Feb 2011. Poverty in a Decade of Slow Economic Growth: Swaziland in the 2000´s.
[113] UNWOMEN, UNDP, UNEP and WB, 2015. The Cost of the Gender Gap in Agricultural Productivity in Malawi, Tanzania and Uganda.
[114] FAO, 2016. Swaziland Country Gender Assessment for Agriculture and the Rural Sector.

meaningfully contribute to the progression of their households and communities. Improving sustainable access to productive assets and credit, rendering services more sensitive to women´s competing responsibilities and responsive to their needs, and increasing female participation in decision making at all levels are essential to improve the impact and sustainability of development investments. Women headed households living under the poverty line require special attention as their needs and constraints are likely to be greater than those headed by men under the same circumstances of poverty.

49. **Youth.** Swaziland´s Youth Policy of 2009 considers youth as being men and women aged 15 – 35[115]; youth accounted for 39% of the population in 2007[116]. It is estimated that approximately 70% of youth live in rural areas. According to Swazi culture, people are considered minors as long as their parents live. The patriarchal nature of Swazi culture has been reported to privilege male youth, while restricting young females[117].

50. The number of youth accessing secondary and tertiary education has increased over the last decades, but the economy has not succeeded in creating sufficient jobs for these educated youth to successfully enter the labour force. Upward progression in the education ladder after primary school is problematic; secondary school attendance rates are better among girls (52%) than for boys (42%)[118]. Interviewees indicated that distance and costs limit access for youth in poor households.

51. Vocational training is available through a network of at least 84 institutions spread throughout the country[119]. Anecdotal evidence points to vocational training opportunities in Swaziland however being limited and beyond the financial reach of the majority of rural Swazi households. Concerns around the quality of the curricula offered and quality of teaching have also been documented[120]. The link between progression in secondary education, employment and successful entrepreneurship for rural youth is not yet apparent.

52. To date, entry into agriculture by unmarried youth has been constrained by the fact that land is generally only allocated by fathers to their sons when they marry[121]. One could say that youth lack access to land, however, it is not possible to conclude that parents or chiefdom authorities would not transfer land to youth if viable opportunities for engagement in profitable agriculture arose. In fact, anecdotal evidence collected in the field during the design mission indicates that parents would likely allocate some land to their children if they appeared to be serious in committing to the activity, and that chiefdom authorities would likely also allocate land to youth duly organised in groups.

53. Youth thus lack land but also lack other forms of capital, such as financing, together with social capital to access the few opportunities available. Interviewees at community level reached in the context of the design mission referred to the following additional factors as constraining the engagement of youth (married or not) in agriculture: agriculture no longer being widely promoted in schools[122]; parents discouraging their children to engage in agriculture due to it being associated with poverty and encouraging them to seek opportunities outside of agriculture even when opportunities are known to be extremely limited; and existing opportunities not meeting the expectations of youth.

[115] Kingdom of Swaziland, 2009. Swaziland National Youth Policy.
[116] Central Statistical Office (no date). Swaziland Population Projections 2007-2030.
[117] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[118] Ibid.
[119] Ibid.
[120] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[121] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[122] The Ministry of Education and Training and FAO have recently launched a pilot project aiming to redress this situation by integrating a climate resilient agricultural skills building programme in 20 schools and training institutions. FAO, (no date) Support to the Incorporation of Climate Smart Agriculture in Swaziland Schools and Agricultural Training Centres Programme.

Table 3: Proportion participation of youth in the labour force and unemployment rates

Age range	% participation in labour force (approximates)	% of youth employed
15 - 24	27%	11.9%
25 - 34	70%	34.2%

Source: Ministry of Labour and Social Security, (no date). Labour Force Survey 2013/14.

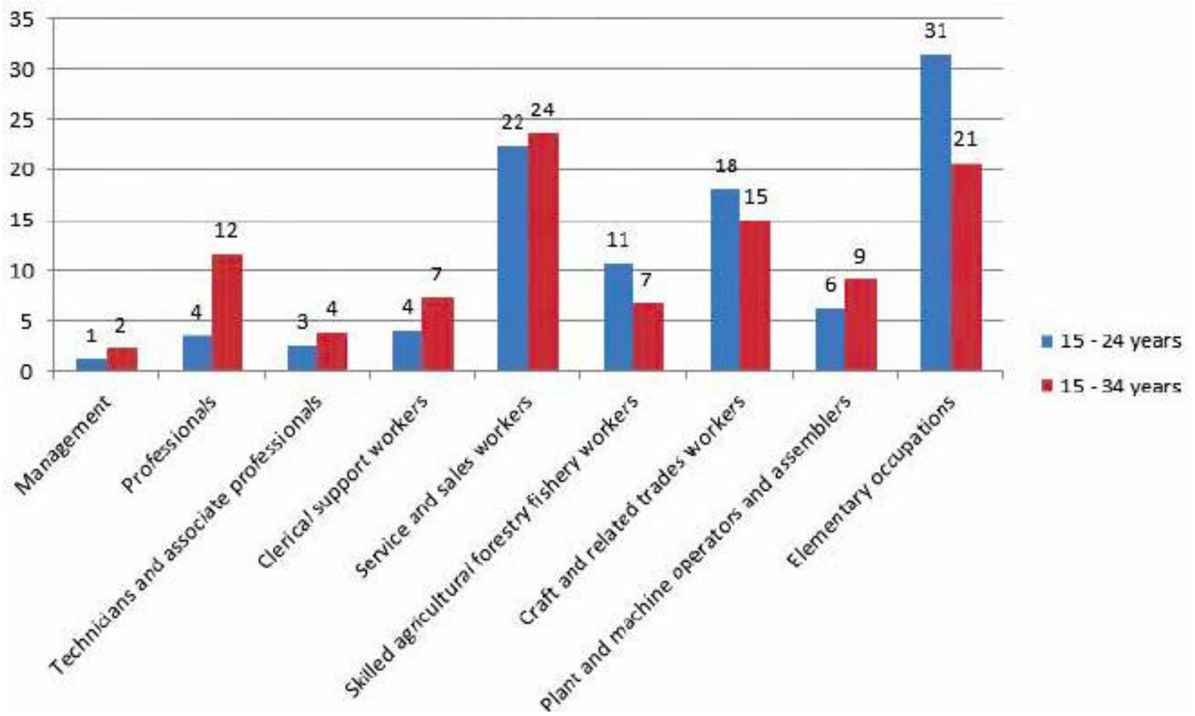
54. It is estimated that in Swaziland around 70% of youth work in the informal sector[123]. Overall, youth are underemployed and underutilised in the country´s labour market. Younger youth (15-24) tend to occupy lower skilled jobs and receive lower remuneration and their participation in the labour market is substantially lower than for those aged 25-35. Employment rates are over three times higher among older youth when compared to younger ones. Patterns of youth employment in urban areas suggest that youth over 25 migrate to cities and find jobs. Unemployment trends for youth in rural areas is consistent with labour participation and employment rates observed in the country, that is, with younger youth being worst off (57.9% and 48.3% for youth in the two age brackets)[124]. Youth unemployment in Swaziland has for years been of the highest in Africa[125].

55. A study conducted in 2013 in urban areas of the country states that entrepreneurship is reportedly regarded by youth as an alternative to lack of employment and as a means to developing independent livelihood activities. Specific constraints referred to be faced by youth in this respect include: a) structural factors such as lack of capital, cost of business registration and licensing; b) attitudes of Swazi society towards youth engagement in entrepreneurship due to perceived lack of seriousness in "serious financial transactions"[126].

56. The national Youth Enterprise Fund (YEF) was created in 2008 to provide capital investment funding as well as management and bookkeeping training to young entrepreneurs. Over the three funding cycles funding declined and repayment rates dropped (ibid) leading to a period of dormancy of the YEF. The YEF has recently been relaunched, with the appointment of a new Board and management team and development of a new business model and working practices. CFI has been supporting this process.

[123] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[124] Ministry of Labour and Social Security (no date). Labour Force Survet 2013/14.
[125] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[126] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.

Figure 3: Youth participation in common employment areas.



Source: Ministry of Labour and Social Security, (no date). Labour Force Survey 2013/14

57. The situation of young women deserves special attention. Interviewees in the field indicated that it is common for girls in rural areas to become pregnant as early as at the age of 14. In fact, teenage pregnancies account for 25% of all pregnancies in the country[127].

58. Youth do not generally participate in political and local planning processes; the voice of youth is overrun by that of older men. Lastly, substance abuse among Swazi youth is common[128].

59. The Ministry of Sports, Culture and Youth Affairs (MSCYA) is responsible for leading all youth related policies and programmes of the Swaziland National Youth Council (SNYC) and harmonize their implementation. Tinkhundla Youth Committees constitute an avenue to influence governance processes at constituency level. However, the level to which these structures represent the voices and capture the needs of youth is questioned[129].

60. In sum, in the context of a saturated formal employment market, opportunities for entrepreneurship in Swaziland become more attractive for youth. Creating an enabling environment for youth to engage in rural entrepreneurship, and more specifically, in agriculture, is crucial. This includes facilitating access to land, offering attractive opportunities in short-cycle crops linked to markets and rural development services and responding to relevant skills development needs. Youth are likely not to get involved in agriculture until returns in agriculture become attractive and offer more than prospects of poverty. Also, mentorship is likely to support skills development, business acumen and sustained engagement in entrepreneurial activities in rural Swaziland.

61. Youth are not homogeneous, those aged 15-24 are more numerous and in a more precarious situation than those in the 24-35 bracket, in terms of access to employment and in accessing livelihood opportunities that match their interests. They have more time but because of mostly still being single and inexperienced, younger youth lack assets. Also, the situation of young female youth (age 15-24), deserves special attention given that traditionally women are expected to transition from

[127] Youth Policy Press, 2015. Youth and Public Policy in Swaziland.
[128] Ibid.
[129] Ibid.

being girls to becoming wives but in practice, in rural Swaziland, female youth in that age bracket can face a “liminal period” that can last up to 10 years having neither a defined role nor easily accessible opportunities. Without specific attention and targeting mechanisms this group can easily miss access to emerging opportunities and further increase their vulnerability. Moreover, their participation in planning and governance processes needs to be explicitly sought to address the double barriers they face, as women and as youth.

62. This challenging picture constitutes an opportunity for FINCLUDE to create specific options for out-of-school youth 15-24 and more settled youth aged 25-35 to see agriculture and rural non-farm business as an attractive opportunity. FINCLUDE will integrate specific measures to respond to the specific barriers and risks faced by female and male youth in both age groups.

F. Migration and migrant households

63. Migration from rural areas to urban centres and to South Africa is a significant phenomenon in Swaziland. Around 100,000 migrants are settled abroad (UNDESA 2017) of which 90,000 in South Africa. Compared to the active population of 435,117 individuals the number of cross border migrants give a hint of the prevalence of migrant households among the population.

64. Migrations are predominantly non-permanent, undertaken by youth and increasingly by women representing 47% of migrants. The significant proportion of female cross border migrants is made up of informal traders who take handicraft goods from Swaziland to sell in different parts of South Africa. A lower proportion is employed in domestic services and tourism. Male migrants in South Africa are still mainly occupied in the mining sector (whilst decreasingly since the 2000) and in the manufacturing and agribusiness sectors. Domestically, the major employers of internal migrants include commercial agriculture, manufacturing and services. The majority of migrant workers hired for short term contract in the agribusiness sector returned to homes in rural areas.

65. While cross-border migration is increasing (+33% between 2010 and 2017), recorded inflows of remittances have slightly decreased in the recent years due to a combination of factors such as the reduction of employment opportunities in the mining sector in South Africa and the prevalence of unrecorded flows channelled through informal methods with formal systems costs remaining at a rather prohibitive level of cost estimated at 16% of the amount sent from South Africa on average.

66. Remittances remain crucial for a significant amount of the population in Swaziland and obviously a critical safety net for migrant households. According to the Finscope consumers survey 2014, 45% of adults in Swaziland (increased from 36% in 2011) either sent or received money to or from family members, parents, and children. Remittances is the main source of income for 13% of adults and a source of income for 22%. Furthermore, remittance is the service that drive the most the usage of regulated financial institutions before savings and credit products.

67. For rural migrant households practicing subsistence agriculture, migration is a strategy to diversify and increase the household sources of in-cash revenues and to be more resilient to agricultural risks. Even if the amounts remitted might seem low -as compared to transcontinental remittances-, below USD400 annually on average[130] they represent more than 60% of receiving household’s income. In addition, the migrant propensity to remit is high with 90% migrant households receiving remittance[131]. It is noteworthy underscoring that the purchase of seed and agricultural inputs is the third item of expenditures remittances are earmarked to (after food and schooling) which reveals a significant tendency to invest remittances in farm activities.

68. Rural migrant households represent a significant segment of population belonging to the FINCLUDE target group of “aspiring resources-constrained entrepreneurs” researching additional incomes outside their locality of origin while still supporting farming activities back home. By receiving remittances, migrant households have a better resilience to financial shocks than non-recipients which

[130] Statistics used in this section refer to the survey *Gender, Migration and Remittances in Southern Africa*, the Southern African Migration Project, Migration Policy series no. 49, 2008.
[131] Which is an extremely high figure in international comparative terms.

can reduce to a certain extent the credit risk for FSP. For those who access the remittance service through regulated channels (22% of adults), they are also more prone to know and use other financial services such as savings and loans. Therefore, they represent an opportunity for FSPs to attract a lower risk profile category of clients and for FINCLUDE a sub-set group that meet the core target groups characteristics with enhanced levels of resilience and entrepreneurial spirit. For migrant households and especially their young members migrants, the project can provide tangible alternative to migration by capitalizing on remittances or on money earned abroad to launch durable productive activities at home.

G. Socio-Economic Characterization Of Households

69. Households in Swaziland can be divided into four socio-economic strata, namely: a) Ultra Poor Labourers; b) Poor Subsistence Farmers; c) Non-Poor Skilled Labourers also Engaged in Agriculture and d) Educated Better Off. Economically active households comprise some among the poor and households above the poverty threshold. Households in the different categories have different levels of vulnerability associated to the extent and type of shocks faced and household resilience to respond. In Swaziland, the poorest are not necessarily the most vulnerable[132].

Table 4: Socio-economic characterization of households in Swaziland.

Socio-economic group	Key characteristics
Ultra poor labourers (30%)	- High dependency ratios (household size can reach >9 people)[133] - Likely to include more women headed households - Likely to have higher HIV prevalence rates than non-poor households - Cultivate very small plots of land (0.25-0.5 ha) – if at all - Higher dependency on low wage labour, petty trade and skilled manual labour (especially men); gifts remittances and aid support from others - Can face labour constrains - Very low access to agricultural inputs - Can face chronic food insecurity - Higher rates of child stunting - More of these households live in Shiselweni and Lubombo even though these regions have a lower population share - Limited access to electricity and potable water - Generally do not use gas or electricity for cooking - About 70% own cell phones - Participation in local savings and credit groups; at times in VSLAs - Borrow money within immediate networks - Not all children go to school
Poor subsistence farmers (33%)	- High dependency ratio (household size averages 5-8 people) - Likely to have higher HIV prevalence rates than non-poor households - Women headed households likely to be more vulnerable than male headed ones - Higher rates of child stunting than non-poor households - More of these households live in Shiselweni and Lubombo even though these regions have a lower population share - Dependency on subsistence farming combined with other low wage / return informal activities and skilled manual labour (especially men); it is estimated that they cultivate about 0.5 – 1 ha. of land - Can be vulnerable to food insecurity - Somewhat limited access to electricity and potable water - Very low use of electricity or gas for cooking (2%) - About 80% own cell phones - Engagement in local savings and credit groups and VSLAs is very common - Low access to credit

[132] Swaziland Vulnerability Assessment Committee, 2016. Swaziland Livelihoods Baseline Profiles.
[133] Household size for all socio-economic categories was obtained from the 2006/7 DHS and could have changed since due to HIV and AIDS and other factors.

Socio-economic group	Key characteristics
	- Unlikely that all children attend secondary school
Non-poor skilled labourers also involved in agriculture (approx. 27%)	- Households tend to be smaller (household size averages 3-5 people) - Some rent land from poorer households to add to increase land cultivated - Vulnerable to food insecurity - Lower child stunting rates 25-27% - Less dependence on agriculture; more involvement in skilled manual labour and trade, but when they cultivate, it is estimated on an estimated area of 1 - 3 ha. - Easier – albeit limited - access to agricultural inputs but likely to be used in insufficient quantities - Greater access to opportunities created by development interventions to improve livelihoods - More likely to have access to water and electricity as can pay service fees - Use of electricity or has for cooking (9-28%) - Over 80% own cell phones - Engagement in VSLAs and SACCOs - Access to formal and mostly informal forms of credit - Greater chances of children attending secondary school and progress further into tertiary education
Educated better off (approx. 10%)	- Smaller households (3-4 people per household on average) - Limited involvement in small-scale agriculture but easy access to inputs; they tend to cultivate more than those under the poverty line. More involved in higher wage labour combined with other sources of income - Good living conditions; 64% use gas or electricity for cooking - Over 90% own cell phones - Easy access to credit through various formal and informal mechanisms - Have access to all education levels

Source: Central Statistical Office, May 2008. Swaziland Demographic and Health Survey 2006/7.
Central Statistical Office, Feb 2011. Poverty in a Decade of Slow Economic Growth: Swaziland in the 2000´s.
Central Statistical Office and UNICEPD. 2016. Swaziland Multiple Indicator Cluster Survey 2014. Final Report.

H. Target Group, Targeting Strategy and Measures

70. **Target group.** FINCLUDE will target ***"aspiring resource-constrained entrepreneurs"*** that is, actual or aspiring smallholders and micro-entrepreneurs for selected commodities or taking advantage of emerging opportunities in cluster areas, who require short-term support. Special focus will be placed on i) young men and young women (18-35) engaged or motivated and willing to engage in farm and non-farm enterprises in the selected clusters locations; ii) poor rural women and particularly women headed households active along the targeted supply chains and aspiring and seeking business growth.

71. **Commodities:** the project will focus on livestock and crops and initially concentrate on five commodities: red meat (beef/goat), poultry, pigs, dairy, vegetables (conventional/baby) and legume seeds. In addition to their strong market orientation, the commodities selected are those in which poor households and women are more present and also that youth (men and women) could easily integrate including through affordable investment pathways – based on affordable initial investments and opportunities for reinvestment of profits to deliver further growth.

Figure 14: FINCLUDE's socio-economic target group

72. **FINCLUDE Targeting strategy** is based on a two-pronged approach that targets farm and non-farm enterprises supplemented by social inclusion strategies integrated within the approach, for further inclusiveness, to specifically meet the needs and aspirations of women headed households as well as those of youth in their diversity and heterogeneity. The segmentation of youth group based on age and gender will allow FINCLUDE to better respond to the differentiated livelihood pathways and constraints faced by young men and women at different ages and in different stages of their life. The aspirations and challenges that face young youth (18-24) are more prone to change and are totally different compared to those of marrieds/settled youth, generally aged 25-35. See attached Matrix/ Appendix 2 showing the differentiated approach of FINCLUDE interventions to get individuals and based on the segmentation of the target group split by young youth vs older X farm and non-farm opportunities.

73. On the other hand, the focus-group discussions organized with young female youth (age 15-24) confirmed that these group deserves special attention because of the double barriers they face, as women and as youth. They encounter social and cultural constraints, live in precarious conditions with high levels of vulnerability. In response, FINCLUDE will develop and apply an inclusive gender strategy for empowering and enabling particularly young female youth and women headed households to access to opportunities offered by the project.

74. FINCLUDE beneficiaries will participate in project activities based on self-selection within project supported cluster areas based on pre-established eligibility criteria. While the project will adopt an inclusive targeting approach, married and unmarried youth[134] (people aged 18-35) and women headed households will be actively encouraged to take advantage of project opportunities. The project will include a set of empowering, enabling and procedural measures to promote socio-economic, gender, youth and migrant household inclusiveness and identify and help mitigate common social risks. The project will actively encourage parents to facilitate the process of youth to participate in FINCLUDE. As such, it is likely that more than one individual within a household be targeted.

75. FINCLUDE will engage with individuals or households around farm and non-farm micro-enterprises. Targeting (and tracking data) therefore needs to be at this micro-enterprise level (i.e. individuals) as well as the more common household level. In practice for FINCLUDE, there may be more than one micro-enterprise in each household facilitated by the project – a young women may start a chicken hatching enterprise while her brother starts a barber shop or parents engage in other productive agricultural crops.

76. FINCLUDE beneficiaries will participate in project activities based on self-selection within project supported cluster areas, based on pre-established eligibility criteria. Married and unmarried youth and women headed households will be specifically encouraged to take advantage of project opportunities. The project will include a set of empowering, enabling and procedural measures to promote socio-economic, gender and youth inclusiveness and mitigate common social risks identified during project design. It is possible, and in fact, the project will encourage parents to facilitate the

[134] This is the Swazi official definition of youth that FINCLUDE will also adopt.

process of youth participation in FINCLUDE. As such, it is likely that more than one individual within a household be targeted.

77. A comprehensive set of measures will be put in place to mobilize, apply, and select project beneficiaries to ensure transparency and accountability to local community members and project staff. A grievance mechanism will be put in place to enable community members to submit concerns with the project or any of the processes employed by it.

78. Beneficiaries are expected to increase over time in each of the geographic areas of intervention. It is expected that in an initial stage mostly those able to assume risks more easily (those living just below or above the poverty line) be the first ones to adhere to the project. Subsequently, it is expected that poor households be ready to engage in larger numbers as they witness proof of concept and the local economy improves. While the better off are not the main target group, their participation will be beneficial to critically increase production volumes and generate market appeal that other participating households can benefit from.

79. Commodity and cluster selection, within the nationwide scope of the project, is a critical element of the FINCLUDE targeting strategy. The prioritised commodities to be initially supported by the project have been carefully screened during design to ensure they meet the selection criteria summarized in paragraph 69 above. Critical in this assessment has been to establish that there are viable and affordable investment pathways for each commodity that are accessible to the target group, even if it may take 3-4 years of gradual growth and reinvestment to expand and achieve the desired level of income (currently targeted as SWZ16,000 per worker).

80. A portfolio of commodities has been selected to provide opportunities in different agro-ecological zones (AEZ) and individuals with different productive resources.

81. In addition, a gender and youth analysis of commodities has been conducted at design to ensure that a gender-balanced and youth sensitive approach of commodities for which there is appetite in the market is promoted by the project. (See Table 11, Table 12 and Table 13.) It is expected that sufficient opportunities will be available for female and male adults and youth to participate in line with rates established for the project.

Table 9: Differentiated intervention strategies by type of youth and economic opportunities

Economic Pathway Chosen	**Age** **Older youth** 25-35yrs and older adults >35 yrs	**Young youth** 18-24yrs
Farm	**Typical opportunities preferred:** 1) Farm enterprises: improve / establish own farm business while collaborating with neighbours in producer groups to engage in clusters and link to buyers, suppliers and service providers often as a group. 2) Agri-service/input enterprises: The dynamism of smallholder agriculture will boost the development of MSME (e.g. services providers in maintenance and repairing of agricultural equipment in vegetable production (poly-tunnels, drip irrigation, trellis netting); inputs providers as chicks in poultry; development and promotion of local feed, phytosanitary safeguards/animal health services providers… Individuals are relatively settled so have access to land but variable levels of financial and other productive resources. Personal networks and status often greater than young youth.	**Typical opportunities preferred:** 1) Farm enterprises: a) establish own farm business while collaborating with neighbours in producer groups. Focus on livestock needing limited land or gain access to land from parents or as youth groups from supportive Chiefdom. b) farm apprenticeships with more established members of local producer group (can be parallel to own farm above). 2) Agri-service/input enterprises: as private individual service providers or working for the local producer group/cooperatives as in-house providers. Individuals are not well settled and may not initially have access to own land for production. Limited financial resources and personal networks but have time and energy and appetite to learn.

Economic Pathway Chosen	Age Older youth 25-35yrs and older adults >35 yrs	Young youth 18-24yrs
	FINCLUDE strategy & interventions • Focus on commodities with affordable investment pathways and suited to their local conditions but also some with bigger investment/growth opportunities (e.g. red meat). • Cluster-based approach to enable smaller and relatively larger farmers to work together for mutual benefit to link to market, suppliers and share experience. • Mentoring individuals and producer groups to successfully transition to farming as a business. • As individuals within producer groups, equipping them with the skills and confidence to make successful farm investments and access necessary suppliers and services to make their investments as success. • Technical / business skills development. • Support to build sustainable linkages with markets and financial services. • Access to financial instruments.	**FINCLUDE strategy & interventions** Similar to older youth with extra focus on: • Linking to local producer groups greatly helps small/affordable initial entry into farming as business. • Minimum initial investment pathway in commodities as poultry/chicken, pigs, vegetables with short production/cash flow cycle and not requiring access to large areas of production land. • Mentoring/coaching for a successfully mind-set transition to farming as a business/to raise their aspirations and professionalism in farming. • While helping/working in the family farm, it is essential that they see the first benefits quickly and feel they are on an upward path. • Local agricultural apprenticeships. • Saving within wider producer groups. • Financial literacy and links to banks/MFI. • Equipping with the skills and confidence to be eagerly involved in farming. • Social mentoring/ with parents to facilitate the process of youth to engage more in agriculture and to access to land and inputs even before married.
Non-farm	**Typical opportunities preferred:** Improve or establish their own non-farm micro-enterprise (e.g. tailoring, beauty salon, clothes, electricity, plumbing, phone repair, metal-work, carpentry, house improvement.). The will mostly operate as independent micro-enterprises serving local demand. **FINCLUDE strategy & interventions** • The dynamism of the smallholder agriculture sector will boost the rural economy and create additional non-farm opportunities through the increased consumption and spending in communities. • Business skills training. • Mentoring via business clinics (as they are independent micro enterprises). • Facilitating access to credit for investment and links with financial institutions. • Support to identify and purchase relevant technical skills training and equipment. • Strengthening links and partnerships with SCGS. • Partnership with YEF for additional financing.	**Typical opportunities preferred:** Young youth would prefer to get good vocational skills and then work for others to start with. Few will directly want to start their own business. **FINCLUDE strategy & interventions** • Business/financial literacy and managerial skills development training. • Opportunities for a link/affiliation to local Saving clubs, SCG or partnership with banks via e-money. • Social mentoring: discussing opportunities to assist youth in effectively engaging in the local (rural) economy (access to land, mentorship, etc.); assessment of risks, barriers and opportunities. • Appropriate candidates of TVET (Technical vocational and education training)/ development of their technical skills. • Acquiring technical and trade skills/Well equipped to earn better income through paid work as plumbers, electricians, technicians in welding, skilled workers in construction… (including finance via education loan). • Partnership with YEF especially important for financing young youth non-farm training. • Apprenticeship/internship around 6 months in the established non-farm MSMEs/ for

Economic Pathway Chosen	Age Older youth 25-35yrs and older adults >35 yrs	Young youth 18-24yrs
		mentoring/coaching by old youth entrepreneurs to raise their professionalism and aspirations.

82. **Geographic targeting: FINCLUDE´s country-wide cluster development approach** (see Box 1) will drive the geographical targeting of the project. The project will be national in scope. Clusters will be identified throughout the country for commodities to be supported by the project in line with suitable agro-ecological conditions, with a critical mass of interested producers and accessible to market players.

83. **Direct targeting of beneficiaries.** It is expected that 18,500 people be targeted over the course of the project with an equal proportion of men and women. Households with couples will be targeted irrespective if through the husband or the wife. Women will be targeted as individuals or as part of households - either constituted by married couples or in women-headed households (aiming for 30% of the total pool of beneficiaries to be women headed households). Sixty per cent of beneficiaries (60%) are expected to be youth (people aged 18-35) with younger youth 18-24 and older youth aged 25-35 reached in equal proportions.

84. Within communities FINCLUDE will target “aspiring resources-constrained entrepreneurs” through a two-pronged approach:

(a) **Farm enterprise.** This intervention will target economically active households in communities meeting suitability criteria, who are interested in improving their individual or household farm enterprise by participating in programme activities.

It is expected that 40 groups will be initiated in year one, 60 in year 2 and 100 in year three as the project widens its scope of intervention across different commodities and within clusters. Each group is expected to start with a limited number of project participants (approximately 15-25) and grow over time, becoming increasingly attractive and possible for more risk averse or resource constrained individuals to join over time.

Beneficiaries will largely be poor or non-poor but vulnerable to poverty. However, it is expected that some better off households and food poor households, which do not face labour constraints also participate in the project.

The suitability of targeting food poor labour constrained households in each target community will be assessed on a case-by-case basis, to confirm if any of the commodities promoted by the project match limited labour capacities among these households. Programme design considers the integration of a graduation approach as beyond its scope. For this reason, it is largely expected that such households be targeted by social protection mechanisms.

(b) **Non-farm enterprise.** As economic development is being stimulated in target communities by enhanced agricultural activity within cluster areas, FINCLUDE will also enable rural individuals and households in Chiefdoms in the cluster areas to access and use financial services including funds through credit to develop non-farm micro-enterprises that respond to local market needs to facilitate individuals and households that are not interested in agricultural to engage in other entrepreneurial activities to be defined by households themselves; this could include construction, plumbing, hairdressing, tailoring, small shops / enhanced trade activities, etc.

85. FINCLUDE will work with existing groups when they comply with project targeting criteria within identified cluster areas and a large majority of members will work together as a producer organisation. Being a member of an existing group is not a pre-requisite for participation in the project. In fact, it is

expected that most beneficiaries will come together in groups (formal and informal) to participate in the project.

86. FINCLUDE's design recognizes the imperative need to create opportunities for rural youth, especially those living under the poverty line. Throughout its engagement in villages, FINCLUDE will integrate strategies for social inclusion to meet the needs of poor women headed households and youth and respond to the differentiated livelihood pathways and constraints faced by young men and women in different ages and in different stages of life (youth in the process of defining their livelihood options which are more prone to change – aged 18-24, as well as married / settled youth, generally aged 25-35).

87. In all instances, FINCLUDE will seek to put in place, or partner with other players to do so, all minimal requirements for beneficiaries' successful engagement in agricultural production, value addition and agribusiness are fulfilled, including: (i) access to credit for capital investment; (ii) access to quality and timely technical assistance; (iii) provision of support for business development skills; and (iv) the promotion of linkages to functional markets with proven demand.

Table 10: Scheduling of outreach and beneficiary, group and cluster mobilization

Type of beneficiary	MSME type: Farm / Non-farm	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Total
Yearly target								
Full package	Farm	600	1600	2225	1750	825	0	7000
	Non-Farm	129	343	476	375	177	0	1500
	Sub-total	**729**	**1943**	**2701**	**2125**	**1002**	**0**	**8500**
Finance Only	Farm	157	393	786	1336	2121	3064	7857
	Non-Farm	43	107	214	364	579	836	2143
	Sub-total	**200**	**500**	**1000**	**1700**	**2700**	**3900**	**10000**
	Total	**929**	**2443**	**3701**	**3825**	**3702**	**3900**	**18500**
Cumulative								
Full package	Farm + non-farm	729	2672	5373	7498	8500	8500	8500
Finance Only	Farm + non-farm	200	700	1700	3400	6100	10000	10000
	Total	**929**	**3372**	**7073**	**10898**	**14600**	**18500**	**18500**
Cluster and Group Mobilization		**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Yr 6**	**Total**
Clusters	New	7	8	0	0	0	0	15
	Cumulative	7	15	15	15	15	15	15
Groups	New	40	80	55	0	0	0	175
	Cumulative	40	120	175	175	175	175	175

88. **Challenges faced by FINCLUDE's target beneficiaries**, namely 'aspiring resource-constrained entrepreneurs', include a lack of money, skills and market linkages – which the project will address through measures including:

- Low initial cost of investment for all commodities / off-farm entrepreneurship opportunities offered by FINCLUDE, with credible reinvestment pathway to grow, including some very low entry capital requirement products such as chicken and vegetables;
- Facilitating beneficiary access to small loans using a Financial Instrument for Risk Management destined for capital investment and operational costs and developing the culture and suitable services for savings earmarked to (re)investment purposes and improved use of remittances;
- Offering training and mentoring during investments planning and implementation to reduce risk of failure / links to buyers / suppliers to reduce external risks;

- Facilitating market linkages and skills development via cluster networking processes, business skills training, mentoring and technical service providers; and
- Addressing social risks and barriers.

89. A detailed analysis of each of social groups (women and men of different ages) revealed three common themes that need to be taken into account to meet the specific needs of female and male adults and youth, namely: differentiated levels of empowerment, time availability and access to land (and other key production resources).

Table 11: Focus Group Discussions confirm that youth would engage in agriculture if… AGRICULTURE CAN BE SMART AND PROFITABLE

Challenges identified by young youth <25 (18-24), women and men, and solutions proposed	
Main characteristics • Out-of-schooling or early school leavers • Cannot access to land because unmarried • Lack of financing and social capital • Jobs opportunities very limited/lack of technical skills • Regular assistance and work in the family farm/in the two parents' farms • Very often in the city for jobs research • Sometimes can access to temporary job with lower remuneration because of lower skilled jobs • Have less resources but more time.	**Question**: **Would rural youth engage in agriculture?** **Responses** 1. They do not make any fixation (fixed opinion) on agriculture: they are ready to seize any opportunity (farm or non-farm activity) with a strong tendency towards non-agricultural activities (metal carpentry, plumbing, electricity, sewing, hairdressing, construction of habitat…). 2. They would engage in agriculture if AGRICULTURE CAN BE SMART and PROFITABLE 3. They would engage in agriculture in a perspective of farming as business and not farming as usual. 4. They are not interested in farming that refers to the hardness of the tasks, to poverty with ragged producers and low income without any perspective of growth. 5. They would prefer to be involved in commodities as poultry/chicken, pigs, vegetables…with relatively short production/cash flow cycle and not requiring access to large areas of production land.
Main Strengths/Assets • A good level of education (number of rural youth accessing secondary and tertiary education has increased over the last decades) • Strong receptivity towards ICTs and to technological innovations • Immigration is not the first option for Swazi rural youth <25. • Great ambition to build a good life for themselves and their families • Optimism/Ready to stay and live in rural areas if jobs creation in farm and non-farm opportunities are real and effective for themselves	**Key challenges identified by youth** • Lack of awareness and information on real opportunities and prospects of job creation and farm and non-farm enterprise development in rural areas. • Those who are interested in farming refer to the constraints of access to land, inputs and market • Lack to access to "clean" and modern agricultural equipment (mechanization and technology) • Difficult access to financial services or lack of financial products adapted to their situation (lack of guarantee), • Very limited management and business skills • Lack of local supervision, coaching and constructive mentoring during the enterprise start-up phase, lack of knowledge of the market and its rules of operation. • Very limited access to information to start and set up a farm or non-farm enterprise in rural areas • Lack of information on the organizations or structures that can provide non-financial support to youth • Absence of credible role models that can inspire them to move from subsistence farming to agribusiness. • Difficulty to undertake discussions and negotiations with parents, traditional chiefdoms leaders and farmers organizations on youth under 24 and unmarried access to land.

Table 12: Youth perspective on main challenges preventing their engagement in Agriculture (farm and non-farm enterprises)

1. Access to finance	• High level of frustration due to frequent rejects of their loans applications
	• High interest rate
	• A request for collateral that cannot be provided by rural youth applicants
	• Lack of financial products adapted to the situation of rural young people
	• Negative perception of Financial institutions on youth loans applications.
	• Youth proposals are very often considered as immature proposals by Banks
	  o Banks find youth loans risky and costly
	  o Banks consider youth as financially inept rural entrepreneurs
	  o Lack of financial literacy and skills
	  o Low level of youth affiliation to SCG

2. Not well equipped in financial literacy and lack of entrepreneurial and managerial skills	• Lack of technical and business skills for developing farm or no farming enterprises • Training on financial literacy and business development are not very often properly delivered (contents very vague, short duration, different standards are used and are very theoretical) • No appropriate mechanism for coaching/mentoring rural youth through the transition from subsistence to market-oriented farming • Business development programmes are delivered by many Capacity Development providers and their results and impacts on youth Business Plan are very limited in terms of access to finance and market • No enough information on the profitability of the business/lack of managerial skills • No record keeping on the business development
3. Very limited market orientation	• The production is not based on the market demand • No enough information gathered on the market before developing a farm or no-farm enterprise • Individual marketing instead of grouping if no member of a farmer organization • Feelings of isolation of young people who are not affiliated to a network or producer organizations to market their production
4. Social barriers	• Farming is hardly linked to business in youth mind because of the poor image they have on farming • Absence of role models that can inspire them to move from subsistence farming to agribusiness • Parents very often discourage youth involvement in farming because of their own difficult experience and life conditions
5. Limited access to production factors and appropriate techniques and technologies	• No access to land by young youth/unmarried • No access to extension services and equipment that increase production and productivity • No access to appropriate inputs (good-quality seed and fertilizer) • Non-availability of water in certain areas for vegetable production • Using traditional production practice for crops or livestock • No enough information on job creation potential and MSME development in farm and no-farm sectors

Table 13: Women's perspectives on challenges and opportunities

Young Rural Women
Main challenges • High level of health vulnerability (HIV prevalence among women under 25 years of age around 26% compared to 5% among their male peers) • Young girls become pregnant as early as at the age of 14 • Lack of information on agriculture job potential creation for youth, particularly for young women • A strong association between farming and hard/ no-profitable work • Not enough information on organizations supporting youth employment and on financial institutions • Limited access to production factors and marketing if interested in farming **Great Opportunities** of job creation in farm and no-farm enterprises Indigenous chicken

- Production level: low investment entry requirements, fast returns and limited dependence on land
- Inputs providers: chicks/baby bird
- Development and promotion of local feed
- Vaccination/medicines for animal health providers
- Phytosanitary safeguards services providers for a better sanitary of chicken housing to reduce mortality rate

Vegetable:

- Production
- Marketing/commercialisation
- Inputs services providers
- Phytosanitary safeguards services providers and pest management

Red meat and Pig farming

- Livestock production
- Health services providers

FINCLUDE Cluster development approach will be a great opportunity to link young youth women running farm and no-farm enterprises to be part of a strong network

Rural women headed households - most are already involved in farming: red meat, indigenous chicken, pigs farming, vegetables in a small-scale, petty trade, sewing…

Main Challenges

- Pasture management/red meat
- Animal health and feeding practices
- Quality standards in livestock production
- No adequate equipment and appropriate slaughter
- Cold storage services are not very often available or are very far from the production
- Access to market and appropriate financial services
- Low capacities of negotiations and marketing with buyers. No member of a network than can facilitate production marketing or access to finance

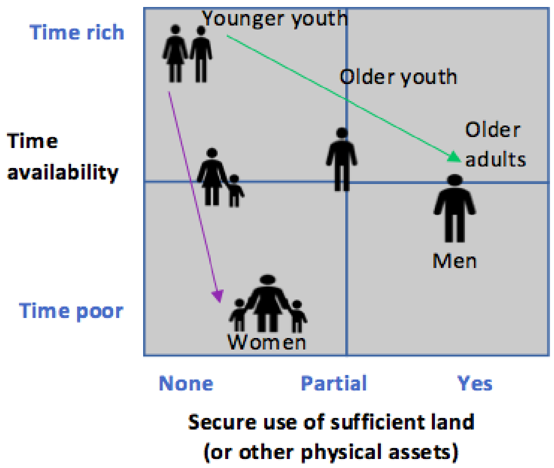
Great opportunities in developing farm and no-farm enterprises (as there is a strong market demand in the domestic market and exports in:

- Indigenous chicken
- Red meat/cattle fattening (need to build on lessons and techniques learnt from a recent pilot funded by IFAD and implemented by ILRI and SWADE)
- Vegetable production

FINCLUDE Cluster development approach will be a relevant answer for WHH production, financial and marketing challenges

There are other many opportunities for WHH who are not involved directly in farm production: MSME can be developed alongside the selected commodities and particularly at upstream and downstream of the production. (See left the business creation opportunities presented for young girls)

Figure 4: Time availability and access to land among different social groups in Swaziland



90. Youth aged 15-24 are time rich but have very limited bargaining power within the traditional Swazi household structure, as well as hardly ever access to land. Over time though, as youth settle and marry, access to land is possible. Adults have less time, especially women with children who assume reproductive and productive tasks and face direct access constraints to productive resources.

91. FINCLUDE will integrate specific measures to ensure that barriers or constraints limiting access and/or sustained engagement in project activities are addressed for each of the sub-groups within the aspiring resource-constrained entrepreneurs.

Challenge		Project Response
Little land / disempowerment	➡	Improve access to land for unmarried youth and women, as well as other individuals interested in project opportunities without sufficient land: • Focus on commodities that don't need much land. • Social mentoring will be used for married women to promote secure land tenure security on land obtained from husbands; it will also encourage the allocation of land to youth within the household wishing to engage in the project. • Chiefdom leadership will be approached to assign land for youth, women and others requiring land to improve their livelihoods with project support, as relevant. • Producer groups will be encouraged to provide apprenticeship opportunities within groups supported by FINCLUDE, including access to small parcels of land for those requiring it. • Encouraging land rental arrangements endorsed by Chiefdom leadership if suitable land is abandoned by households.
Time constraints / greater time availability	➡	• Target products to different segments based on time requirements associated to each opportunity offered by FINCLUDE. • Integration of techniques promoting labour productivity for each system (as applicable), for example, use of drip irrigation for vegetables; encourage the sale of "day-old chicks" rather than growing them to three months[135], etc. • Use of appropriate technologies for mechanisation / labour saving in production / harvesting, etc., especially among women headed households with limited labour capacity to ensure effective participation in project,

Table 6: Expected participation of different social groups in FINCLUDE

'Full beneficiaries' only	Total HWs with Female and Male Adults (40%)	Total Female Headed HHs (30%)	Total Youth (60%)
Farm	2,800	2,100	4,200
Non-farm	600	450	900
Total	**3,400**	**2,550**	**5,100**

92. FINCLUDE will strive to reach an equal proportion of men and women. Women will be targeted as individuals or in households either constituted by couples as well as in women headed households (aiming for 30% of the total pool of beneficiaries to belong to this later group). Sixty per cent (60%) are expected to be youth (people aged 18-35); with younger youth 18-24 and older youth aged 25-35 reached in equal proportions. Among these target groups, migrant households will be targeted as individuals and in households. Migrant household will represent 20%[136] of the whole FINCLUDE beneficiaries.

93. Key criteria to be considered by the project to identify aspiring resource-constrained entrepreneurs, includes (to be refined as project design progresses):

Figure 15: Criteria to identify "aspiring resource-constrained entrepreneurs"

<u>On-farm entrepreneurs</u>	<u>Off-farm entrepreneurs</u>
• Resident in the community in the past 2 years (criteria does not apply to youth <25, in so far as parents or guardians can prove residence in the community); migrants back home for less than 2 years will have to demonstrate strong ties –	• Resident in the community in the past 2 years. (criteria does not apply to youth <25, in so far as parents or guardians can prove residence in the community). migrants back home for less than 2 years will have to demonstrate

[135] The prime benefit of focusing on selling day-old chick is reducing work related to feed preparation and animal husbandry; this keeps the focus on 50-80 laying hens rather than expanding it to an extra 200-300 chicks.
[136] This number is based on the proportion of households to whom remittances represent a source of income estimated as of 22% of the population according to Finscope survey.

immediate family, married couples- with relatives resident in the community). • All school-age children attend primary school. • Relatively food secure: household members regularly consume 2 meals a day. • Willing to commit to an 18-month active engagement in programme supported activities. Youth <25 will access loans in self-organized groups of 8-10 youth. Access to loans among members of each group will be staggered so as to build support and pressure on this group with high mobility. • Access to 1-2 ha of land. • Preferably, some historical involvement or knowledge on agriculture (for youth, this includes parents having engaged in agriculture).	strong ties –immediate family, married couples- with relatives resident in the community). • All school-age children attend primary school. • Relatively food secure: household members regularly consume 2 meals a day. • Willing to commit to an 18-month active engagement in programme supported activities. Youth <25 will access loans in self-organized groups of 8-10 youth. Access to loans among members of each group will be staggered so as to build support and pressure on this group with high mobility. • Completed primary school.

94. A gender and youth analysis of commodities was conducted during FINCLUDE design, warranting a gender balanced approach of commodities for which there is appetite in the market. It is expected that sufficient opportunities will be available for female and male adults and youth to participate in line with rates referred to above.

Table 7: Social screening of commodities considered in FINCLUDE design

<table>
<tr><th>Commodities</th><th>Suitability for Men</th><th>Suitability for Women</th><th>Suitability for Male Youth</th><th>Suitability for Female Youth</th></tr>
<tr><td colspan="5">Meat & livestock</td></tr>
<tr><td rowspan="2">Red meat</td><td rowspan="2">Cattle is predominantly owned by men. Likely to constitute the first entry group to cattle fattening opportunities</td><td rowspan="2">- Cattle owned in very few numbers, but goats more widely owned
- Emerging cattle fattening opportunities could be detached of the cultural baggage associated with cattle rearing at HH level by men</td><td rowspan="2">- Work as cattle pastoralists for men; some are familiar with cattle
- Could provide specific support services to owners such as with accessing veterinary drugs
- Potential for producing quality animal feed</td><td rowspan="2">- Potential for producing quality animal feed</td></tr>
<tr></tr>
<tr><td rowspan="2">Poultry (incl. indigenous chicken)</td><td rowspan="2">Not seen as a priority by men</td><td rowspan="2">- Traditionally owned and raised by women
- raised at the homestead, enabling production to be combined with other household activities
- Improved productions systems requiring more intensive husbandry are suited to women´s caretaking</td><td colspan="2">- Short cycle; requires little and not very good quality land
- very low initial investment costs</td></tr>
<tr><td>- opportunities for processing and marketing e.g. as part of group investing in improved small-scale slaughterhouse</td><td>- Improved productions systems requiring more intensive husbandry are suited to women´s caretaking capacities
- opportunities for processing and</td></tr>
</table>

Commodities	Suitability for Men	Suitability for Women	Suitability for Male Youth	Suitability for Female Youth
		capacities		marketing e.g. as part of group investing in improved small-scale slaughterhouse
Pigs	Raised by men and women	Raised by men and women - raised at the homestead, enabling production to be combined with other household activities - modern production and feeding systems provide further opportunities for women to take lead in household pig fattening/breeding	- Short cycle; requires little and not very good quality land - requires moderate level of initial investment - opportunities also in livestock production services for well-trained youth	
Crops				
Vegetables	- Men most interested in commercial scale production	- Generally cultivated by women - moderate labour intensity - only small areas of land needed, so can be seen as compliment not a replacement to other cropping by men.	- Short cycle; quick and steady returns. - lower levels of initial investment are feasible if aggregating output as part of a larger producer - Only requires small areas of land - opportunities in grading, packaging and marketing of producer from group as regular year round supply	
Legume seeds	Land based crops, well suited to un-irrigated and marginal land Very low entry costs if have access to land, so well suited to poorer farmers, but ned to collaborate in group for processing, certification and marketing of seed	May be well suited to women-headed households and women with access to un-irrigated land but willing to work together for processing, certification and marketing Opportunities for mechanization can further reduce the labour required per ha., providing opportunities to offset lack of (male) labour	Requires larger areas of land and so primary production not likely to be very accessible to young youth Seed sector requires significant post- harvest grading and packaging suited to youth employment opportunities	Requires larger areas of land and so primary production not likely to be very accessible to young youth Seed sector requires significant post-harvest grading and packaging suited to youth employment opportunities

95. Given that it is expected that the majority of beneficiaries be youth, specific measures will be put in place in throughout the project cycle to ensure that the project effectively captures the attention of and attracts youth to apply and sustain participation in project activities, namely:

(a) The specific interests of youth in each cluster area will be assessed at the start activities (production, service provision and off other off farm entrepreneurial opportunities).

(b) Specific targets will be set for youth in each cluster (some commodities will be more appealing that to male / female youth).

(c) Specific communication strategies will be developed with youth participation and used to mobilize youth including the use of social media, as relevant.

(d) Land access and tenure arrangements for youth (in groups) will be sought at the start of project activities at chiefdom and community level.

(e) Matching grants will be offered to younger youth aged 18-25 to engage in agricultural production.

(f) Mentorship schemes with successful farmers will be put in place for continuous skills development among youth, for example drawing ideas from the Future Farmers agricultural apprenticeship programmes in South Africa.

(g) Youth representation (male and females aged 18-24 / 25-35) will be sought in all groups involved in project activities to ensure that their needs and concerns are effectively captured.

(h) Assess potential collaboration with Tinkhundla Youth Committees.

(i) “Youth satisfaction barometer” will be used to regularly monitor youth interest, sustained participation in project, success and promptly identify issues that could favour youth drop out, for the project to fine tune implementation strategies as needed.

(j) Youth entrepreneurship competitions providing all youth (low education and educated, younger and older youth, male and female) to participate and showcase their success in rural entrepreneurship at cluster level.

(k) Assess, on an ongoing basis, opportunities for collaboration with vocational training institutes located in cluster areas with the view to aligning training opportunities and market opportunities.

96. **Mitigation of common social risks.** Key barriers identified limiting potential beneficiary access to FINCLUDE opportunities and sustainability of engagement and enjoyment of associated outcomes, identified at FINCLUDE design are as follows:

(a) Limited access to land and limited tenure security among male and female youth and women;

(b) Limited interest in youth to engage in agricultural production, as it is associated with poverty;

(c) Potential increase of household tensions and gender inequality with increased income flows in households where both husband and wife are present[137];

(d) Increased risk of HIV acquisition by young women; need to increase health seeking behaviour among HIV positive pregnant women, youth and men;

(e) Food insecurity and malnutrition associated with lack of production of food for consumption by participating households and an increase in food prices;

(f) Overestimate of migration benefits and underestimate of costs, risks and of the importance of setting goals before engaging in migration.

97. Social Mentoring support will be offered to programme beneficiaries to address these risks and barriers and ensure that households are able to maximize their socio-economic potential. Mentoring

[137] The use of GALS enables households to assess aspects of gender inequality that can limit women’s self development, hinder household and community overall wellbeing and limit household socio-economic progression and enable households and groups to identify suitable measures to address them.

activities will be delivered first in target communities to obtain the buy-in of leaders, and then to beneficiaries in project-associated groups. Households in which husband and wife are both present will also benefit from Social Mentoring at household level. Social Mentoring will be integrated in a larger mentoring package, which will include business development skills building based on the use of the methodology Business Literacy Class, used by IFAD and other agencies in Asia with great success.

98. Social Mentoring activities as designed for FINCLUDE is based on several evidence-based approaches:

(g) The Gender Action Learning System (GALS) – for the development of joint household visions and corresponding plans; discussing opportunities to assist youth in effectively engaging in the local (rural) economy (access to land, mentorship, etc.); assessment of risks, barriers and emerging opportunities[138].

(h) Stepping Stones[139] – a behaviour change methodology facilitating the assessment of risks associated to HIV and AIDS, and paths to reduce / mitigate them.

99. The issues to be included in the Social Mentoring intervention will need to be confirmed at the start of the project through rapid assessments once the first geographic areas to be targeted have been identified. At design, it is suggested that the following elements be considered:

(a) Development of a household vision;

(b) Household planning: use of resources and opportunities available, including remittances;

(c) Identifying and addressing common barriers for household progress (including common areas of gender inequality; youth´s and women´s active and sustainable engagement in profitable livelihood strategies and the importance of accessing land and securing tenure);

(d) Balancing the costs and the benefits of migration and aligning migration and financial goals at household and individual levels;

(e) Provision of basic information on HIV prevention and clinical HIV services available: HIV testing and counselling, HIV care and treatment, community services and support groups (if any) and use of services;

(f) Provision of information on HIV services available: HIV testing and counselling, HIV care and treatment, community services and support groups (if any);

(g) Importance of pregnant women, youth and men testing and using clinical HIV services and adhering to anti-retroviral treatment;

(h) Couple disclose of sero-prevalence; overcoming HIV stigma and discrimination;

(i) Provision of basic information to prevent malnutrition[140].

100. Social Mentoring activities will be implemented by trained members of the beneficiary groups supported in the context of FINCLUDE. "Mentors" will work with their peer beneficiaries over a period of about 8 months in groups and between 12-18 months at household level.

101. Once a critical number of changes have been made and sustained by households, participants "graduate" and become resources to other members of the FINCLUDE supported groups, their relatives, neighbours and wider communities.

[138] IFAD, October, 2014. Case Study: Gender Action Learning System in Ghana, Nigeria, Rwanda, Sierra Leone and Uganda. Gender, Targeting and Social Inclusion.
[139] http://steppingstonesfeedback.org accessed 19th July 2017.
[140] The content, coordination of activities and sharing of results related to HIV/AIDS should be done with NERCHA and for nutrition with the Swaziland National Nutrition Council and Home Affairs within the Ministry of Agriculture.

102. Social mentoring will be offered to all “full” beneficiaries in groups. Additional household-level Social Mentoring activities will directly target approximately 1,360 households over the lifetime of the project. Each Mentor will be responsible for monitoring eight households. Social Mentors, will receive technical support and oversight from equally trained Supervisors contracted by the service provider responsible for this activity. A total of approximately 190 Social Mentors and Supervisors will receive training on Social Mentoring in the context of FINCLUDE.

Table 8: Social Mentors and Supervisors to be trained in the context of FINCLUDE

	YR1	YR2	YR3	YR4	YR5	YR6	Total
GROUP MENTORING: 1 mentor per group -in each group the role will be assumed by one of the mentors doing the HH mentoring	40	80	55	0	0		**175**
HOUSEHOLD LEVEL MENTORING							
HHs to be reached at HH level (40% of HHs with female and male adults) - NEW / non-cummulative	117	311	432	340	160	-	1,360
# NEW MENTORS to be trained per year (1mentor : 8 HHs)	15	39	54	43	20	-	170
# supervisors required per year (1 supervisor : 10 mentors)	1	4	5	4	2	-	17
TOTAL # PEOPLE TO BE TRAINED IN SOCIAL MENTORING	**16**	**43**	**59**	**47**	**22**	**-**	**187**
N. Trainings (25 people per group) - this refers to the number of trainings that will need to be conducted to train mentors and their supervisors	1	2	3	2	1	-	9

103. FINCLUDE will ensure that all information and intervention related to the fight against HIV included in Social Mentoring is in alignment with GoS guidance and duly coordinated at local level with other players working towards common goals.

I. Youth, Gender And Migrant Household Mainstreaming Strategy

104. To ensure that programme outcomes are attained and sustained, while at the same time strengthening relevant sector capacities at national, district and local level, FINCLUDE will integrate a comprehensive youth, gender and migrant household mainstreaming strategy comprising:

(a) Parity of employment between men and women at the PMU; operations staff will reflect the expected proportion of men, women and youth beneficiaries to be targeted.

(b) Training of all project staff at national level, implementing agencies and relevant stakeholders on social analysis, as well as youth, gender and migration sensitive programming.

(c) Contractors interacting with programme beneficiaries will be required to follow project measures related to youth, gender and migrant household mainstreaming.

(d) FINCLUDE human resource policies and procedures are gender sensitive.

(e) Social screening of commodities and other off-farm livelihood activities to be supported by the project.

(f) If considered appropriate, using Chiefdom Development Planning in chiefdoms covered in clusters as one venue to discuss, obtain buy-in and lobby for the empowerment of youth, women and participatory development. Specific issues to be highlighted include: social analysis of the situation of young men and women including opportunities and barriers that need to be addressed; enabling increased youth engagement in rural development – including agricultural production; facilitating access to land and tenure security (both from chiefs and at household level); promoting meaningful participation of youth in project and local governance processes; and assessment of other common social risks and barriers identified in FINCLUDE design.

(g) Design of specific communication strategies for youth aged 18-24 and 25-35.

(h) Dissemination of information related to project to ensure it reaches women, youth and migrant households through appropriate channels/locations/times to actively encourage participation.

(i) Warranting equal representation of men, women and youth and informed participation/ representation of men, women and youth in all relevant FINCLUDE meetings and participatory processes.

(j) Beneficiary selection processes are sensitive to women, youth and migrant households.

(k) Integration of a Social Mentoring intervention to address pressing social risks and barriers constraining sustainable engagement of youth and women and enjoyment of benefits to be generated by the project, including access and control over productive resources and participation in decision-making among others.

(l) Collection, analysis, reporting of gender, age and migrant household disaggregated data.

(m) Monitoring targeting goals per social group and targeting effectiveness; use of information to fine tune programme strategies.

(n) Monitoring intended and unintended changes in gender relations and common areas of gender inequality.

(o) Earmarking funds for qualitative special studies to improve understanding of specific issues related to youth/gender mainstreaming.

(p) Production of knowledge and sharing lessons learnt in the domain of social inclusion with stakeholders at national level, concretely, with: the Ministry of Agriculture (Home Affairs, currently being appointed gender issues), the Department for Gender Coordination and Family Issues at the Prime Minister´s Office, and the Ministry of Sports, Culture and Youth Affairs, NYEP and the SNYC to positively influence policy development.

105. Migrant households, as households or individuals will be targeted as a sub-set of the core target groups, i.e., women, youth and rural households. The mainstreaming strategy for migrant households will consist in (i) profiling the categories of migrant household members matching the core target groups, especially, women and youth (ii) adapting at the margin the approaches targeting women, youth and rural households to their specific characteristics. Indicatively, the different profiles of migrant household members matching the core target groups and the attached strategies to leverage their specificities are summarized in Table 14.

106. This mainstreaming strategy will be backed by a socio-economic survey of the migrant households at project inception aiming to refine this segmentation and to support the adaptation of the business training (financial education part) and the social mobilization methodology to cater migrant households' profiles. To insure a thorough design and a seamless implementation, the FFR will support the CFI in developing the specific sections and key messages to be conveyed to migrant households by financing the technical advice of proven experts in financial literacy and social mobilisation for migrant households in joint assignment with the experts in charge of the business training and social mentoring modules design.

Table 14: Migrant households and strategies to leverage their characteristics

FINCLUDE core target groups	Migrant households (MH) specificities	Strategies to leverage MH characteristics	
Married youth	One member of the couple abroad sending remittances or away for seasonal work repatriating capital home	Remittance recipient: encourage savings on remittances and other sources of incomes with the purpose to invest in cluster commodities / business	Migrant and couple: prepare the return (at departure stage, during migration, upon return) by setting aside incomes earned abroad/away to invest in cluster commodities/business
Unmarried Youth	Young individuals engaged in migration sending money to their parents and youth candidate to migration	Candidates to migration (possibly mostly in the 15-24 age bracket): Sensitize both parents and youth to balance the costs, risks and possible gains of migration with the social advantages and economic gains to invest in cluster commodities / businesses	Youth engaged in migration (possibly mostly in the 25-35 age bracket): raise awareness on local cluster activities with clear and well packaged information on cost, benefits, timing and process for investing in different cluster activities
Women head of household	Receiving money from a relative or engaged in seasonal migration / cross border trade	Remittance recipient: encourage savings on remittances and other sources of incomes with the purpose to invest in cluster commodities / business	Temporary migrant: setting aside incomes earned abroad/away to invest in cluster commodities/business
Other categories	Mix of the above characteristics without gender or youth features	Mix of the above strategies depending on the migrant or the remittance recipient status in the MH	

Mobilization and targeting

107. FINCLUDE will promote a generic approach to mobilization and targeting that at the same time promotes understanding of specific local circumstances and practices, and empowers local groups in each cluster targeted to make decisions on how to best ensure social inclusion in line with project design, effective participation and transparency towards the achievement of project results.

108. Mobilization will be carried out on a local basis, as cluster areas are identified along with the driving commodity. Once this has been determined, FINCLUDE will liaise with relevant local authorities at chiefdom level, to bring together a representative group with equitable participation of women, men and youth, to assess the specific situation of women and youth particularly in the cluster, determine opportunities and obstacles that need to be addressed for effective participation and achievement of expected results.

109. Presentation of local assessments along with project information to Chiefdom authorities will seek to create synergies (and in so far as possible align) Chiefdom Development Plans and project interventions, obtain local buy in and get Chiefdom authorities on board to address issues such as access to land to women and youth. On the basis of this, the details of the targeting strategies will be spelled out for the cluster and agreed with local authorities.

110. FINCLUDE experts will work with local youth to identify and test key messages and channels best suited to reach out to male and female youth of different ages (18-24 and 25-35) in relation to the project.

111. Information on the project will be disseminated in close coordination with the Tindkundla and Chiefdom authorities (including a specific communication campaign directed to youth, including information related to project objectives, areas of intervention, targeting rates foreseen, criteria for participation, selection process, dissemination of results and grievance mechanism.

112. **Beneficiary selection.** Following mobilization, individuals will be asked to submit their applications for participation in the project in line with agreed eligibility criteria, within specific timeframes, in previously notified easy to reach locations within their villages. Local Committees will be identified to assess and approve applications received in each community targeted in the cluster. The participation of local representatives, including representatives of village leaders, men, women and youth, together with FINCLUDE staff, will be important to ensure inclusive participation and transparency. The list of selected beneficiaries will be announced publicly and posted in visible locations within communities. Once announced, beneficiaries will be asked to constitute groups of approximately 15-25 people (in year one) in line with local preferences (mixed groups, youth specific groups, gender-segregated groups.

113. **Participatory management.** Various project activities will entail meetings and decision-making over the course of the project. Project staff will ensure that all processes and groups involve equal, informed and active participation of men, women (including women headed households) and youth of different gender and age. By the same token, the project will ensure that monitoring processes integrate participation of the various social groups targeted by the project.

Attachment 1-1: Targeting Checklist

Targeting checklist	***Design***
1. Does the main target group – those expected to benefit most – correspond to IFAD's target group as defined by the Targeting Policy (poorer households and food-insecure)?	The main target group, that is, aspiring resource-constrained entrepreneurs includes individuals (men and women of different ages, including mostly unmarried youth aged 15-24 and more settled youth in the 25-35 age bracket) living under the Swaziland national poverty line. These households can be affected by food insecurity in certain months of the year. Poorer beneficiaries are expected to adhere to FINCLUDE opportunities over the course of the project as benefits are witnessed among first beneficiaries.
2. Have target sub-groups been identified and described according to their different socio-economic characteristics, assets and livelihoods – with attention to gender and youth differences (matrix on target group characteristics completed)?	Yes, the project has accounted for the participation of beneficiaries from different socio-economic groups (poor and non-poor but vulnerable to poverty), taking into account their asset base and access to opportunities. Specific measures have been foreseen to ensure that the project attracts and caters for the needs of young and adult women and men.
3. Is evidence provided of interest in and likely uptake of the proposed activities by the identified target sub-groups? What is the evidence (matrix on analysis of programme components and activities by principal beneficiary groups completed)?	A detailed analysis of the different socio-economic groups as well as the gender and age groups within each has been conducted and used to design project interventions. Community members were interviewed to capture local perceptions on the constraints and needs of each group. While agriculture is not currently appealing to youth, the project has been designed in such a way as to make it appealing to youth by addressing key entry barriers, identifying livelihood activities that meet youth´s expectations of quick returns and higher profitability than current options currently available in rural Swaziland.
4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy, involving some or all of the following measures and methods:	Yes, the approach and strategy is feasible and in line with IFAD´s targeting policy.
4.1 **Geographic targeting** – based on poverty data or proxy indicators to identify, for area-based projects or programmes, geographic areas (and within these, communities) with high concentration of poor people;	Geographic targeting will be the first criteria for targeting. It will be based on matches between agro-ecological potential and markets for agricultural products. Additional off-farm activities (value addition, provision of supporting services to farmers have been considered together with services that an improving local economy may demand in terms of non-agricultural services. Currently, 63% of the Swazi population lives under the poverty line and over 25% is vulnerable to falling under poverty. In light of this, FINCLUDE will add substantial value in any geographic location of the country even if it does not prioritize the areas of the country with the highest concentration of poor people.
4.2 **Direct targeting** – when services or resources are to be channelled to specific individuals or households;	Yes, a substantial amount of project resources will be targeting individual beneficiaries directly, in line with pre-defined criteria. Beneficiaries will be those needing access to and capable of assuming credit to improve their livelihoods.
4.3 **Self-targeting** – when good and services respond to the priority needs, resource endowments and livelihood strategies of target groups;	FINCLUDES overall targeting approach is based on self-selection. People within the geographic cluster areas supported by the project will engage with the project based on their interest and capacity to lead their own development process.
4.4 **Empowering measures** – including information and communication, focused capacity- and confidence-building measures, organizational support, in order to empower and encourage the more active participation and inclusion in planning and	The project was designed taking into account the needs of different social groups within the overall target group. Interventions to be implemented by the project include facilitating access to assets (land, credit, knowledge, skills, relationships with buyers, strengthening farmer bargaining power, etc.). Participatory processes will inform project

Targeting checklist	***Design***
decision-making of people who traditionally have less voice and power;	development and engagement by beneficiaries, buyers, intermediaries and service providers. Provisions have been made to promote the active participation and representation of the interests of men and women of different ages in all of these processes. The integration of Social Mentoring (GALS, adapted to the local context) aims to empower all household members and have a spill over effect at community level and project processes.
4.5 **Enabling measures** – to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building;	The project includes a Youth and Gender Mainstreaming strategy, which aims to equip the project management team as well as service providers and local leadership to ensure that the project is inclusive and is able to effectively implement its targeting strategy. Project design includes interventions to capture lessons learnt in these domains to use to fine-tune project strategies as well as to inform policy dialogue in the country in an ongoing fashion. Synergies will be built with another active IFAD supported project being implemented in the country (SMLP) to ensure cross-fertilization.
4.6 **Attention to procedural measures** – that could militate against participation by the intended target groups;	FINCLUDE will disseminate project related information to ensure that all social groups can access it according to their preferred channels of communication. The information will include general information on the project, opportunities it makes available, community engagement processes and criteria for participation.
4.7 **Operational measures** – appropriate project/programme management arrangements, staffing, selection of implementation partners and service providers.	All project staff will receive training around social inclusion; staffing will reflect targeting social groups (especially at field level so that women and youth are largely served by peers); FINCLUDE human resource policies will be gender sensitive. Budgetary allocations have been made for appropriate implementation of the project´s youth and gender strategy.
5. Monitoring targeting performance. Does the design document specify that targeting performance will be monitored using participatory M&E, and also be assessed at mid-term review? Does the M&E framework allow for the collection/analysis of sex-disaggregated data and are there gender-sensitive indicators against which to monitor/ evaluate outputs, outcomes and impacts?	Project management will be driven by participatory processes, including participatory monitoring of targeting performance. The project will collect data disaggregated by age and gender. Provisions have been made for ongoing technical assistance to the project team to ensure effective support to the in managing the social inclusion strategy and management of the targeting strategy. At operational level, the project will monitor gender and social equity, which will be monitored regularly.

Attachment 1-2: Gender targeting checklist

Gender checklist	Design
1. The programme design report contains – and programme implementation is based on – gender-disaggregated poverty data and an analysis of gender differences in the activities or sectors concerned, as well as an analysis of each programme activity from the gender perspective to address any unintentional barriers to women's participation.	A thorough gender analysis was conducted, which includes poverty, livelihoods and analysis of specific social risks and barriers faced in rural Swazi communities. Specific attention was given to the situation of young women, especially those aged 15-24 and provisions made to ensure that they can ve effectively reached and participate and benefit from the project. Project activities have been assessed and appropriate measures integrated to ensure that the project is able to engage and generate benefits for women, also including poor women headed households. Provisions were also made for the conduction of special studies to shed light into social inclusion issues that may require more in-depth understanding to maximize programme effectiveness – including women´s issues of relevance for the project.
2. The programme design articulates – or the programme implements – actions with aim to:	
- Expand women's economic empowerment through access to and control over productive and household assets;	Yes, the project will promote women´s empowerment by offering specific opportunities to them that meet their time availability and labour capacity. In addition, through a two level approach (chiefs and households) it will seek to redress one of the key bottlenecks hindering women´s sustained engagement in profitable agricultural activity: access to assets (land, credit, voice, influence).
- Strengthen women's decision-making role in the household and community and their representation in membership and leadership of local institutions;	FINCLUDE includes a Social Mentoring component as part of a larger package of mentoring that will be offered to beneficiaries. The bulk of this activity will be implemented in groups under which beneficiaries are organized. However, understanding that married women who live with their husbands face household constraints due to gender power imbalances and that tensions have been seen to arise in rural households of the country when incomes increase, beneficiaries with these characteristics will also be targeted at household level. Participatory processes to be used in the context of FINCLUDE will provide for effective representation and participation of young and adult women.
- Achieve a reduced workload and an equitable workload balance between women and men.	While seeking equitable workloads between men and women at household level has not been stated as an explicit result of project interventions, it is possible that improvements in this respect are obtained from the use of Social Mentoring, especially the household level activities to be delivered to selected beneficiary households in which both husband and wife are present.
3. The programme design report includes one paragraph in the targeting section that explains what the programme will deliver from a gender perspective.	The programme design document includes a section dedicated to the youth and gender mainstreaming strategy. It also indicates the types of changes it aims to generate.
4. The programme design report describes the key elements for operationalizing the gender strategy, with respect to the relevant programme components.	Details are provided in the gender mainstreaming strategy on internal (management level) and programme measures to be adopted by the project. The targeting section of the design document provides overall information of how programme will respond to women´s needs.
5. The design document – and the programme implements – operational measures to ensure gender-equitable participation in, and benefit from, programme activities. These will generally include:	
5.1 Allocating adequate human and financial resources to implement the gender strategy.	Yes, budgetary allocations have been made to implement the strategy, including building the capacity of the FINCLUDE management and operations teams and service providers. Given that the project will bring in substantial innovations to the way

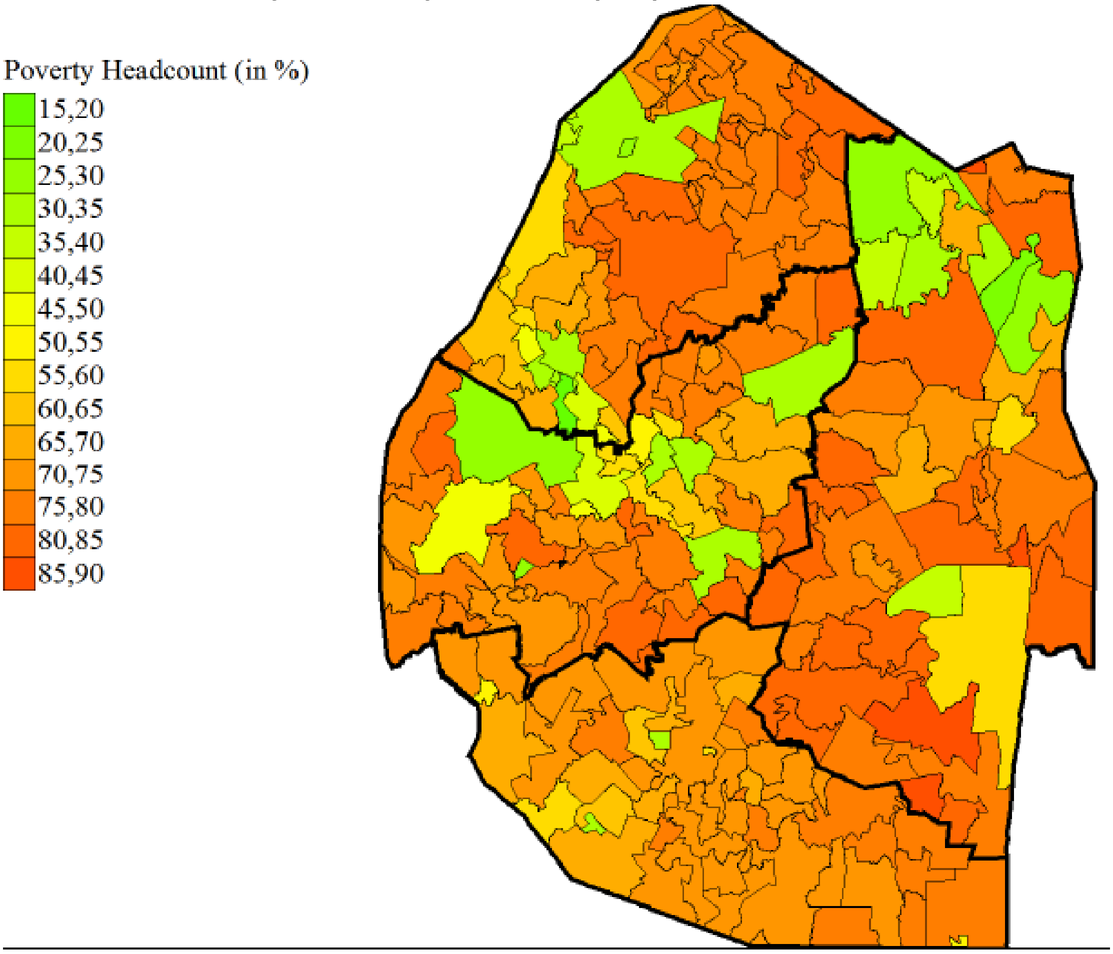
Gender checklist	Design
	that development interventions have been designed for the country to date, and the need to ensure successful implementation of the targeting strategy, sufficient technical assistance to the PMU has been accounted for to implement the gender strategy.
5.2 Ensuring and supporting women’s active participation in programme-related activities, decision-making bodies and committees, including setting specific targets for participation.	Rather than specific quotas for participation, the project has established estimated participation of the different social groups (including young and adult women). Rather than imposing ratios, the project designed interventions to attract women to participate, for example, making provisions to target female youth 15-24 in the circumstances they currently face in rural Swaziland, together with women headed households.
5.3 Ensuring that project/programme management arrangements (composition of the project management unit/programme coordination unit, programme terms of reference for staff and implementing partners, etc. reflect attention to gender equality and women’s empowerment concerns.	Yes, this has been taken into account in the gender mainstreaming strategy, which includes internal gender mainstreaming within the management structure, staffing structure, requirements to service providers, policies, skills building, etc.
5.4 Ensuring direct project/programme outreach to women (for example through appropriate numbers and qualification of field staff), especially where women’s mobility is limited.	The project´s staffing structure will reflect the representativeness of each social group within the project´s targeting strategy. Activities will be implemented at local level with most of the capacity building interventions being implemented by trained peer beneficiaries. Implementation of activities will align to women´s availability and, when necessary, to their mobility.
5.5 Identifying opportunities to support strategic opportunities with government and other development organizations for networking and policy dialogue.	The project design includes several activities to capture learning, identification of lessons learnt and best practices in relation to social inclusion. Including a consultancy to capture information, workshops to disseminate project experience and discuss with relevant stakeholders, with the expectation of informing policy development processes and programmes in the country.
6. The programme’s logical framework, M&E, MIS, and learning systems specify in design – and programme M&E unit collects, analyses and interprets sex- and age-disaggregated performance and impact data, including specific indicators on gender equality and women’s empowerment.	Indicators around gender equality will be captured in the operational M&E strategy and related system.

Attachment 2-1. Demographic and Poverty levels at Tinkhundla Level (2010)
(Note: Red font indicates higher than national average poverty level)

Region and Tinkhundla	Total population (#)	Poverty Headcount (%)
Hhoho Region	**279,214**	**62**
Timpisini	8,330	74.3
Ntfonjeni	20,946	76.0
Mayiwane	15,096	78.4
Mhlangatane	22,195	80.9
Ndzingeni	18,894	79.7
Mandlangempisi	16,829	77.6
Maphalaleni	19,300	82.1
Pigg's Peak	16,829	55.5
Nkhaba	15,491	75.0
Motjane	30,628	60.6
Mbabane West	23,115	42.5
Mbabane East	36,142	23.5
Hhukwini	9,552	78.1
Lobamba	25,867	46.3
Manzini Region	**313,043**	**57.7**
Mkhiweni	23,819	77.6
Kukhanyeni	17,986	74.5
Mafutseni	15,265	67.8
Mthongwaneni	17,254	72.9
Manzini North	38,660	33.7
Manzini South	14,776	21.5
Kwaluseni	40,258	31.2
Ludzeludze	27,948	58.4
Lobamba lomdzala	18,128	51.0
Nhlambeni	11,897	61.7
Ntondozi	14,556	76.1
La-Mgabhi	11,878	73.7
Mhlambanyatsi	8,821	56.8
Mangcongco	6,389	75.4
Ngwempisi	26,954	73.6
Mahlangatsha	18,454	79.7
Shiselweni Region	**206,642**	**68.8**
Kubuta	6,888	71.2
Nkwene	7,152	74.7
Mtsambama	18,898	65.2
Gege	18,145	68.0
Mbangweni	25,814	56.7
Maseyisini	27,313	63.2
Sandleni	13,198	72.9
Ngudzeni	8,026	72.0
Zombodze	16,049	71.8
Shiselweni	12,625	73.3
Hosea	19,419	73.1
Sigwe	11,570	76.1
Matsanjeni South	16,149	76.1
Somntongo	5,396	71.1
Lubombo Region	**205,974**	**73.5**
Lubuli	14,162	82.3
Sithobela	30,201	82.8
Nkilongo	15,769	59.7

Region and Tinkhundla	Total population (#)	Poverty Headcount (%)
Siphofaneni	23,251	75.9
Mpolonjeni	20,461	80.9
Matsanjeni North	12,833	81.5
Lugongolweni	15,308	62.2
Dvokodweni	28,116	76.2
Hlane	7,077	83.0
Mhlume	16,695	37.0
Lomahasha	22,101	79.5

Attachment 2-2. Poverty levels at Major Area Level (2010)



Source: Central Statistics Office, 2011. 2010 Swaziland Poverty and MDG Maps: Region, Tinkhundla and Major Area.

Appendix 3: Country performance and lessons learned

A. IFAD COUNTRY PROGRAMME

1. Since 1983, IFAD has supported Swaziland with 5 development projects with IFAD funding of USD 44.6 million and total cost of USD163.7 million. Swaziland has additionally benefitted from two Global Environment Facility (GEF) funded projects of total of US9,17 million. The ongoing IFAD funded country programme consist of Smallholder Market-led Project (SMLP) with IFAD funding of USD10.1 million and the complementary Climate-Smart Agriculture for resilient Livelihood (CSARL) grant of USD7.2 million.

2. The overall goal of IFAD in Swaziland is to improve livelihoods of rural Swazis through improved access to food, income, assets and increased resilience. Given the extent and causes of rural poverty in Swaziland and IFAD's comparative advantages, three strategic objectives were agreed to with GoS during the development of the CSN of April 2017. Achievement of these objectives will contribute to reducing the very high levels of rural poverty.

3. FINCLUDE will build on the success of the RFEDP through the strategic objective 2 of the CSN which is aligned with SNAIP Programme 2 "Improved Access to Markets and Value Chains", the SMME and Cooperatives Policies, as well as the Financial Inclusion Bill and Microfinance Policy.

B. IFAD Projects in Swaziland

Lower Usuthu Smallholder Irrigation Project (LUSIP)

4. While the project has enabled the Government to secure its water rights under the international tri-partite agreement with Mozambique and South Africa, it has also provided an opportunity for rural empowerment, smallholder and household access to irrigated land for food security, and increased incomes. IFAD financing focused on empowering communities to participate in decisions regarding land resettlement and access (for housing, schools, graveyards, production, etc.). To this end the project developed a process now locally referred to as Chiefdom Development Plans, which are very comprehensive and the Government wanted to up-scale this in chiefdoms outside of the project area. The resettlement undertaken by the project has been historic in that not once was infrastructure construction held up due to land issues. Smallholders were provided with information on types of group formation, most of who chose to form companies, and regarding options for crops be it sugarcane or diversifying to support food security and increased incomes. Infrastructure, apart from tertiary delivery systems, was completed. Phase I of LUSIP provided 6,500 hectares of irrigated land to smallholders not including household gardens. The first farmer companies started planting in late 2009 and had their first harvest in 2011. The Project was led by the Ministry of Agriculture, with SWADE as implementing agency.

5. Achievements for LUSIP included the following:

(a) Infrastructure completed to adequately supply 1500 ha by 2010, 4000 ha by 2011, and 6500ha by 2012 and reservoir filled by 2008;

(b) All environment and social requirements met for infrastructure development. Biodiversity assessment show no deterioration;

(c) 2600 households with adequate water supply;

(d) 19,397 people (2,711 households) have an improved access to sanitation facilities;

(e) 14,646 people (2,186 households) now have access to clean and potable water, which will reduce the occurrence of some water borne diseases such as diarrhea, which were previously a major issue due to the low quality of the water people used for drinking and cooking.

6. In its first phase, the project constructed the dams and a tertiary distribution system to irrigate the first 6 500ha. In Phase II, the Government of Swaziland intended to extend the water delivery system by 36km and construct a tertiary distribution system to irrigate a further 5,000 ha.

Lower Usuthu Sustainable Land Management Project (LUSLM)

7. The overall goal of the Lower Usuthu Sustainable Land Management Project (LUSLM) was to contribute to reducing land degradation and protect biodiversity through widespread adoption of sustainable land management practices in Swaziland; while also contributing to mitigating and increasing communities' capacity to adapt to the adverse effects of climate change. The specific project objectives were: 1) to promote development and mainstreaming of a harmonised, cross-sectoral approach to SLM at the national level; 2) to reduce land degradation, biodiversity loss and mitigate climate change in the Lower Usuthu River Basin area through the application of sustainable land management practices which will contribute to adaptation to climate change; and 3) to improve the livelihood opportunities, resilience and food security of rural communities (men, women and children), including catalysing development of a range of alternative complimentary livelihood opportunities. The Project implementation was led by the MoA in close collaboration with LUSIP I and SWADE as the implementing agency.

8. Achievements for LUSLM included the following:

(a) The successful further development of the Chiefdom Development Plans (CDP) through an essentially participatory process, starting in the sectors of each chiefdom. For future, there should be an increased focus on agri-business and access to rural finance, as well as on targeting of development activities;

(b) Through a strategic partnership with the University of Swaziland's Journalism and Mass Communications Department (UNISWA JMC), the impact and lessons from the project are well known nationally and gaining a regional recognition. This is reflected in the increased requests the Project received from neighboring communities, line Ministries and NGOs. Additional and appropriate communication of plans and activities within the communities will further the communities' engagement in development activities;

(c) The establishment of a comprehensive field programme to introduce and capture both the biophysical and social impacts of Conservation Agriculture (CA) to more than 500 households; and the continued promotion of Permaculture Gardens. The Project shows that agricultural production can be enhanced, with the surplus being absorbed in the locality; Efforts to address soil and water conservation at a larger scale than the individual household, by conducting erosion / land degradation control activities and by rehabilitating existing dams and command areas;

(d) Contributions to the Land Act (draft) and the development of the Land Governance project that has been approved by the EU following consultations with the Project Steering Committee.

Rural Finance and Enterprise Development Programme (RFEDP)

9. The programme became effective in September 2010. The RFEDP had two mutually reinforcing thrusts: 1) development of technical and business skills; and 2) increasing access to rural financial services. The long term goal of RFEDP is to contribute to poverty reduction and the overall economic development of poor rural households in Swaziland. The purpose of the programme is to increase incomes, improve business opportunities and augment access to sustainable rural financial services for the rural poor. The programme objectives were:

(a) To provide the rural poor with access to efficient and effective financial services on a sustainable basis;

(b) To develop an enabling and enhanced environment for business development in rural areas; and

(c) To establish/develop micro- and small-scale enterprises (on and off-farm) as well as business services in rural areas.

10. The total outreach for RFEDP was 12,374 households. The RFEDP's achievements included the following:

(a) All asset ownership indicators have increased significantly with the target of "20% of households with improvement of assets ownership" being surpassed by 3%.

(b) The RFEDP had a positive impact on the financial assets of beneficiaries, with a 27% increase in access to financial services in rural areas (appraisal target 20%) and the average beneficiary monthly income up to USD 215, a significant increase from the USD 80 reported at baseline.

(c) The MFU has used the value chain and partnership approach to great effect in capacitating and MSMEs for growth and extending the RFEDP's reach. Valuable learnings were obtained from focus group interviews conducted with MSMEs and participating partners.

(d) Regulators, financiers, business development institutions and technology service providers were found to collaborate closely in order to create an enabling environment for micro small and medium-scale enterprises.

(e) The targeted approach of MFU and the RFEDP in enterprise development has achieved significant impact in the establishment and growing of the MSME sector. Results from the impact assessment study indicated that 76% of respondents had established their own business compared with only about 10% during the baseline survey.

(f) RFEDP beneficiaries emphasised both the value of marketing training received and assistance with accessing new markets. Most of these beneficiaries attributed their successful business growth to a significant increase in clients. The impact of new clients and value of new business from clients is directly attributable to the training, mentoring and coaching that business owners have received from the RFEDP.

Smallholder Market-Led Project (SMLP)

11. The Smallholder Market-Led Project (SMLP) is a six year project, which was approved by IFAD Executive Board in April 2015 and entered into force on 16 February 2016. The SMLP design is complemented by the Global Environment Facility (GEF) co-financing for additional USD 7.2 million, under the name of Climate-Smart Agriculture for Resilient Livelihoods (CSARL) which will enable SMLP to extend its outreach and increase its focus on sustainable land and water management through climate smart agriculture.

12. The project's goal is to contribute to national poverty reduction. The development objective is to enhance food and nutrition security and incomes among smallholder producer families through diversified agriculture production and market linkages.

13. The project development objective is to enhance food and nutrition security and incomes among smallholder producer families through diversified agricultural production and market linkages. The project's three major outcomes are as follows: i) the project chiefdoms engage in effective planning and decision-making; ii) soil and water resources are sustainably managed for market-led smallholder agriculture in the project chiefdoms; and iii) smallholder producers in the project chiefdoms supply crop and livestock products to market partners, while subsistence farmers are enabled to produce sufficient nutritious food for themselves.

14. It has been agreed that FINCLUDE and SMLP will move to harmonize their approaches to market linkages and cluster development. A key driver for this is the need to have more sustained

mentoring of individual farmers, producer groups and at cluster level as an enabler for banks to be willing to consider providing finance to farmers for investment. If the harmonization of approaches can be achieved, then FINCLUDE will be able to extend activities under its Rural Financial Services component to also cover relevant beneficiaries under SMLP. IFAD will support both projects in this process and there will be ongoing close collaboration between the two projects during implementation.

C. Key lessons learned

Lessons from IFAD Swaziland Programme

15. The following lessons are drawn from past experience in Swaziland:

(a) **Outcome maximization requires design and implementation strategy driven by evidence-based decision making.** The greatest lesson learned through the RFEDP is the need for evidence-based design and ongoing strategy adjustments. Programme effectiveness and impact maximization relies on credible, contextualized evidence informing design and implementation and is the basis upon which achievable expectations and programmatic course corrections can be confidently based.

(b) **Land and water management through local planning.** The unsustainable use of natural resources and the uncertainties over land access and land management are important bottlenecks when moving towards commercial farming. It is important to enhance local resource planning for the introduction of sustainable land and water management. Reiterative planning and close follow up of the implementation is needed.

(c) **Private-sector oriented programming must have comprehensive and ongoing market intelligence.** Programme implementation must be informed by a comprehensive understanding of the need, interests, motivations, commitments, and capacity of IPs and target beneficiaries. This is particularly important in programmes supporting private sector enterprise and involving multiple quasi-private sector, non-profit and government stakeholders.

(d) **Training and financial services must meet beneficiary and stakeholder needs.** It is not sufficient to state what institutions or beneficiaries do not have: it is also critical to learn what moves them to act. Smallholder households will take an enterprise development course if participation is compensated but will apply learnings only if it suits their needs. BDS providers will develop curriculum for a target beneficiary if compensated, but will likely use an existing and perhaps not well-suited training material if there is no long-term incentive to customize trainings to meet beneficiary needs. A government agency will agree to good practice regulation if it supports their agenda but may not if it diminishes their political leverage. These are hypothetical examples, but as the programme found, identifying, then meeting the needs of programme beneficiaries and other stakeholders to be a challenge. This understanding underscores the critical importance of targeting well defined beneficiary (by type) and a well-functioning M&E which can help better match intervention types with demand. Additionally, accurate targeting and needs assessments can support a self-selection graduation approach for accessing increasingly more sophisticated (and costly to provide) enterprise development and financial service’s needs. This would increase both the effectives and efficiency of programming.

(e) A functioning M&E system that measures output and outcome performance is required for evidence-based decision making and implementation guidance. Monitoring and evaluation is critical in any programme, but is particularly important in a private sector-oriented programme which requires an understanding of beneficiary enterprise needs as they evolve. Meeting such needs is doubly important when beneficiaries are expected to risk time, capital assets, and take loans based on programme interventions. In the case of the RFEDP, M&E needed to do more than simply count outputs, as it also needed to provide "market" intelligence/feedback to the programme. An M&E system can provide vital and ongoing information not only for iterative design changes, but for assessing performance-based implementing partner accountability as well.

(f) Performance and cost sharing based-relationships can improve long term partnership relations and provide greater accountability to results. Participation in any private sector-oriented programme is best served through performance-based and cost sharing interventions. Often long-term in nature, performance-based contracts/relationships are particularly important when IPs are private sector actors such as FIs and can gain from project participation (underscoring again the importance of M&E). Performance-based relationships provide for transparent and clear expectation management for NGO and quasi-state organizations as well.

(g) **Participatory approach:** It is imperative for a supply led irrigation to integrate the distribution of water and associated land use within the expressed needs and preferences of the local community and to recognize and ensure that the Project addresses population needs for those households not benefiting from access to irrigated land; (ii) Establish an exit strategy for the Project and its management team that is based on empowering community and giving them more responsibilities in Operations and Maintenance; (iii) Development Planning Process: The traditional chiefs play important role in land allocation as land belongs to chiefs. It would be a mistake to ignore the traditional Chiefdom System in the Development Planning Process. They should be involved in the planning process; and (iv) Problem of sequencing: The infrastructure works started before the social assessment therefore the social tried to fit into infrastructure instead of the contrary. For any such magnitude of infrastructure work, good coordination should be sought between social and economic issues to better serve people.

(h) **Projects need to target issues that are relevant to peoples' livelihoods for them to be quickly taken up.** In such cases project need not cost a lot of money for them to be adopted at community level. The LUSLM Project addresses issues of biodiversity loss, land degradation and water stress which are at the centre of livelihoods of most farmers in rural Swaziland. The options that these projects have offered have been quickly adopted as they are seen to be contributing to improvement of livelihoods.

(i) **A key learning from the beekeepers project under RFEDP was that business owners often choose to remain micro or small**, since with growth comes additional capacity building needs, market access requirements and management issues. The creation of industry bodies helps with managing the entrepreneur's risks, but perceptions about the relative value added by industry bodies has to be focused and measured at an individual business level in order to ensure real impact.

(j) **Marketing and sales strategies should not only focus on getting the product to market, but ensure that products and services meet market demands** in terms of quality, quantity, consistency and relevance (innovation). Market linkage intermediaries assist clients with product development, pricing, production, financing, etc., in addition to opening markets and facilitating sales.

(k) **Rural development projects are multi-dimensional and require the engagement of a range of diverse but related service providers** for them to yield effective results. Project Management on the LUSLM Project has realized the value of partnerships in the implementation of this project. The efforts that have been made to enlist the inputs of various extension workers in the project area and getting them trained in project management is already bearing fruit as some stakeholders are now running their own programmes using the LUSLM project as a vehicle for delivery of their own results. For example, the training provided by World Vision on food preparation has added value to investments made in establishing permaculture gardens.

Lessons on inclusive cluster and value chain development and financing

16. Importantly, FINCLUDE must also learn from lessons drawn from experience in other countries on similar approaches on inclusive cluster and value chain development. Lessons drawn from the IFAD Asia's flagship inclusive market and cluster development project, the 'High Value Agriculture Project' in Nepal, through recent external review (by ADB) and the design team for its second phase led to the following conclusions:

(a) **It is possible to have effective market-oriented development investments that are also inclusive**, by selecting value chains with clear opportunities and using an inclusive business approach. In terms of inclusions, the recent review of HVAP concluded that "HVAP has been remarkably successful in including poor and marginalised households into the value chains it has supported", as demonstrated in the charts below. Inclusion and pro-poor targeting has been effective on two critical dimensions:

(i) <u>Participation rate of poor households averaged 91</u>% for the project and is high across all commodities;

(ii) <u>Relative increases in income are higher or comparable for poor households than non-poor households in 5 of the 6 commodities</u> for which data is available. Only one commodity, goats, showed a clear non-poor bias. This was identified during project implementation and the failure to achieve preferential impacts for poor households in the goats value chain was primarily the result of recommended investment pathways based on large initial investments in goat sheds which were unaffordable to most households. Following identification of this problem, alternative affordable investment pathways were then promoted based on initial expansion of fodder production and some additional breeding animals with deferral of expensive investments until after several production cycles once households had accumulated some profits.

Figure 16: Lessons learned: HVAP Participation rates of poor households by commodity

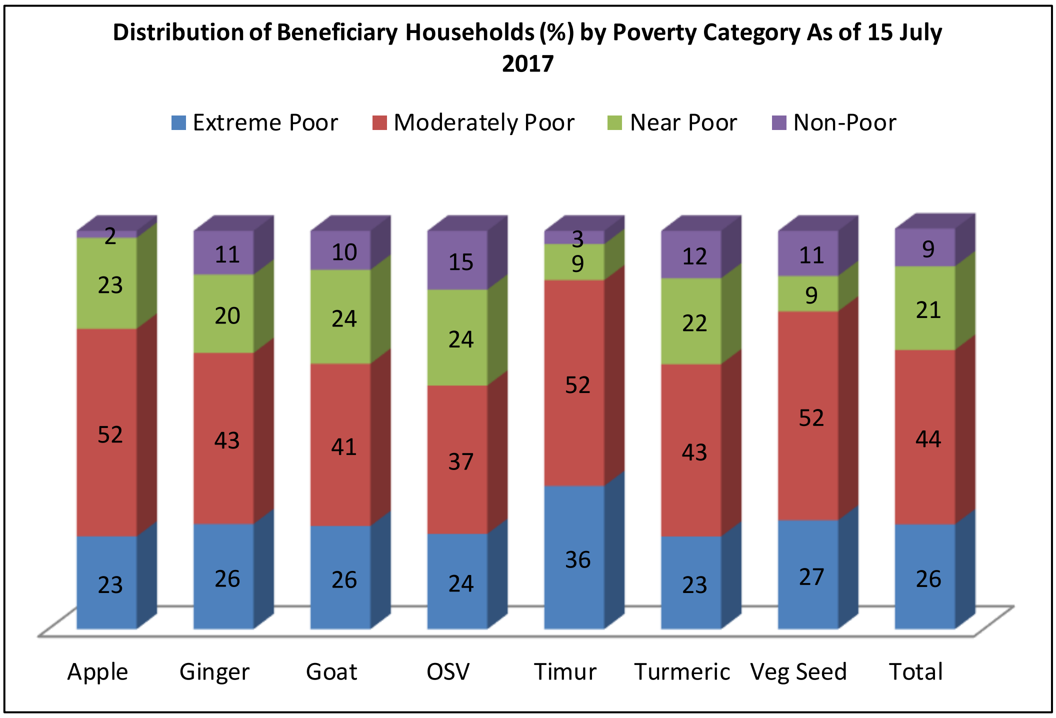


Table 15: Lesson learned: evidence on HVAP's highly effective inclusion of poor and marginalized households

	Households engaged (@ July 2017)		**Change in net income over baseline (%)** (@ July 2015)				
Commodity	Total HH	% poor HH	All House-holds (Jul 2017)	A Extreme Poor	B Moderate Poor	C Near Poor	D Non-Poor
Off season vegetable (OSV)	3,612	85	295	306%	221%	141%	226%
Apple	1,953	98	359	374%	254%	260%	116%
Goat	3,064	90	80	**72%**	**81%**	**293%**	**317%**
Turmeric	1,800	88	280	662%	447%	175%	-61%
Ginger	1,382	89	127	56%	143%	30%	120%
Timur (a spice)	2,346	97	118	60%	85%	20%	112%
Veg Seeds	435	89	298	Data not available			
Total	**14582**	**91**	**126**	**157%**	**139%**	**192%**	**127%**
				←		**Poor**	**Non-poor**

(b) **The focus on cluster-centred activities at the production level is very effective**; both in facilitating market linkages and should provide a similar foundation to develop more sustainable service provision to farmers and producer organisations.

(c) **Two of the most critical pre-conditions for inclusive value chain development are**: (i) immediate market opportunities with strong demand and scope for growth; and (ii) technical and financial feasibility for smallholders to compete effectively in these product value chains.

(d) **For inclusive value chain development to be achieved, the investment required must be feasible for poorer households.** If the investment route to become a viable and competitive producer of a given product is too expensive, too "lumpy" (i.e. needing big individual investments that cannot be broken down into affordable stages), too risky or too technically complex then it is unlikely to be accessible for the majority of average or poorer households and so the objective of inclusive growth are unlikely to be achieved.

(e) **Help value chain players build trust and understand the value of long-term relationships.** A critical success factor of any well-functioning value chain is the level of trust and collaboration among its actors. Build a transparent flow of information along the chain, about prices and quality standards between small-scale producers and private companies, and facilitate agreements that are beneficial to both parties.

(f) **Business literacy and experience creates greater impacts** and is a critical factor in value chain development. Most small farmers have little experience with formal commerce and financial management, but after projects build their capacity, they respond to commercial opportunities.

(g) **It is not possible for a project, such as HVAP [or FINCLUDE], to change market demand** for a given product. Enterprise and value chain activity is observed to be developing and maturing, and awareness of strategies to develop market demand (and product development), is increasing.

(h) **Large scale post-project replication by farmer groups is often restricted by lack of access to finance and other support services** if these are not developed in parallel to the clusters and value chains.

(i) **Agriculture value chain development should be led by the private sector**, namely by key "gatekeepers" to customer access, typically private agribusinesses and supermarkets, not government agencies.

(j) **Incentive payments**, if used, for business-oriented behavioural change at industry and producer levels **should be designed and priced to mitigate associate risk and not serve as a credit substitute**. Once a desired behavioural change has been profitably demonstrated in an agroecological zone, and financial markets developed, value chain financing should be supplied through financial markets.

(k) **Investment incentive payments, if used, must ensure "additionality"** – the extent to which an activity (and associated outputs, outcomes and impacts) is larger in scale, at a higher quality, takes place quicker, takes place at a different location, or takes place at all as a result of intervention.[141]

(l) **Initial value chain development is typically driven by middle income farmers** who can more easily meet the market requirements in terms of quality and quantity of products, but often draws in poor household once perceived risks have been mollified and transaction costs reduced.

(m) **Inequalities are embedded in the rural society and are difficult to level.** Marginalised people's role in decision making is still secondary to prominent people (community and group leaders) who communicate and respond positively to development interventions and embrace economic opportunities.

(n) **Farmer groups and agribusinesses are willing to pay for quality private services as a part of a viable business plan.**

(o) **Market-linked infrastructure development is an integral part of inclusive value chain establishment and growth promotion**, but must be well designed, sustainable and climate adapted.

(p) **Rural financial services institutions (Banks, MFIs, cooperatives etc.) need capacity building**, risk management strategies and more diversified loan products **to adequately service agriculture value chain financing**.

(q) **In the absence of appropriate rural financial services, agriculture value chain investments are unlikely to be scalable.**

17. In addition to the specific lessons drawn from the experience of the IFAD supported HVAP, a recent external review[142] of wider inclusive agricultural value chain development across multiple project supported by a range of donors identified the following lessons:

Agricultural value chain macro-level interventions

(a) **Macrolevel factors** (government regulation, policy and infrastructure) and **mesolevel factors** (industry quality standards and certification, licensed brand development, business association activities) play major roles in shaping the structure, functions and efficiencies of a value chain.

(b) **Consider multiple value chain intervention points.** The traditional entry point for small farmer development projects is at the primary production level, i.e. building the capacity

[141] Donor Committee for Enterprise Development (DCSD)

[142] ADB Nepal (2016) Study on Achievements, Lessons Learned and Way Forward on Agriculture Development through a Value Chain Approach

of target groups – including the more vulnerable groups – to gain access to markets and engage in business relationships along the value chain. However, a value chain approach recognizes that intervention may have multiple points of entry at different nodes along the commodity value chain. For example, improving the efficiency and capacity of processors or other downstream actors can create additional demand and higher prices for crops, with direct benefits for small-scale producers.

(c) **The value chain approach should be based on a comprehensive look at the entire commodity chain**, from producers to end market consumers. Inherent to the approach is acknowledging that there are other stakeholders in the chain (in addition to the development partner's target group) and that they are interrelated; for example, improved business opportunities for processors or other downstream actors can have a positive influence on the target group. Sometimes, intervening at stages other than at the production level in the value chains can have a greater impact on poverty reduction[143].

(d) **Two of the most critical pre-conditions for inclusive value chain development are**: (i) immediate market opportunities with strong demand and scope for growth; and (ii) technical and financial feasibility for smallholders to compete effectively in these product value chains.

(e) **Create incentives for the private sector to provide goods and services for small-scale producers rather than crowding them out.** This has proved to be far more effective than relying on free-of-charge government services that risk crowding out possible private investments.

(f) **Policy dialogue.** Crops of high political value, such as rice in South Asia, are often subject to serious market distortions (input subsidies, price floors, pan-territorial pricing, export bans) that discourage commodity value chain upgrading activities. For example, the Nepal Dairy Development Corporation Ltd. has traditionally been so heavily subsidized that a major private sector milk processor was crowded out and closed leaving small farmer suppliers without an additional seasonal market.

Targeting Interventions

(g) **There is no single right or optimal way to organize a value chain.** However, there are ways of enhancing the small-scale producer's involvement in a value chain. A value chain approach can target improving the product (e.g. quality enhancement), the processes (e.g. more efficient production and organization of farmers, market information), the infrastructure, and the governance (e.g. formal government regulation and informal rules and agreements between actors) so that producers capture a higher share of the profit margin or value created within the chain.

(h) **Microenterprise development.** Rural people who find involvement in primary production difficult (because they lack assets and skills) or unattractive (e.g. youth) may participate in value chains through microenterprises. Microenterprises can provide services and inputs (seeds and fertilizers, equipment and maintenance, extension, etc.) that could be a key part of a value chain upgrading strategy.

(i) **Employment generation.** Wage employment opportunities can be provided by farmers at the production level (e.g. for harvesting) and by producer organizations and local small and medium-sized enterprises involved in various stages of the value chain (equipment retailing, produce aggregation, grading, processing, etc.). Highly labour-intensive value chains such as horticulture can offer employment opportunities for land-constrained farmers or landless rural poor people.

[143] While this lesson comes from IFAD's Value Chains Toolkit (www.ifad.org/knotes/valuechain/), the same lesson is learned from the projects assessed in this study.

(j) **Expanding cash crop farming to the detriment of food crops might have a negative impact on household food security.** Commodity value chain development projects need to assess and monitor the impact of planned interventions on household food security to find an appropriate balance between food and cash crop farming, particularly if rural producers have very little surplus beyond that for subsistence.

(k) **Monitoring and evaluation (M&E).** Tracking and documenting the outcomes of innovation funding are too often neglected in projects. Yet having a sound M&E system enables projects to identify and address problems as they arise. M&E relies on clear indicators and milestones purposefully selected to gauge progress in implementing subprojects. The data gathered during field visits and documented in progress reports is used to populate the management information system used by the grant scheme, and can be reviewed as needed.

(l) **Matching grants may have negative side effects.** These may include: (i) promoting non-viable or non-feasible enterprises or business activities; (ii) substituting savings with external grants; and (iii) crowding out financial institutions and existing private sector. Possible distortive effects should be identified and mitigated during project design, by providing value chain assessment studies and hosting stakeholder awareness forums. Matching grants are least controversial when used for investments that support public goods, such as agricultural research and development.

Institutional arrangements

(m) **Multiple government agencies may need to be engaged to ensure coordination.** At local level, the lack of coordination between livestock, crops, forestry and irrigation line agencies is often a major challenge.

(n) Especially in remote areas for niche product value chains, **strengthening market linkages requires adequate technical assistance** to assess and identify specific opportunities and develop business and industry plans to realize those opportunities.

(o) **Legal registration is costly, time consuming and a barrier to inclusion for grass root farmer groups**, livestock groups and other groups living in remote areas since it requires multiple visits to district centers, and it was proven unnecessary for fiduciary compliance.

Commercial Bank financing, insurance and risk management

(p) **The challenges of bank lending to small and medium agriculture are not insurmountable.** Across cases examined by IFC[144], some patterns emerge in terms of what seem like good practices:

 (i) Bankers can differentiate classes of farmers within their value chains or organizations develop appropriate financial packages effective in reducing risks and costs.

 (ii) Financing agriculture is more effective when it is part of a broader package that combines both financial and other services to improve yields, quality and access to markets.

(q) **Risk management.** Agriculture is considered a risky activity. Attention should be paid to how participation in commodity value chains exposes small-scale farmers to increasing benefits but also additional risks. Poor rural people usually depend on multiple and complementary livelihood activities to protect them from shocks.

[144] IFC 2012. Innovative Agricultural SME Finance Models. Washington DC.

(r) Make use of local knowledge of value chains, and producer organizations to lower risk. The key issue is addressing the variety of risks in agriculture lending while keeping transaction costs contained. Emerging success stories of innovative approaches depend on the farmers, types of crops, locations, and conditions. In-depth knowledge and analysis of these can lead to the most added value for the financing of farmers.

(s) **Agricultural insurance** schemes supported by government subsidy and commercial insurance products have been ongoing in South Asia for over a decade (especially in India, more recently in Nepal[145]). ADB's support for weather risk indexation[146] has been an example of how the public sector can reduce the cost to commercial insurers of developing realistic risk profiles at regional and micro-climate level.

(t) **Risk management matters:** insurance and risk-sharing can be important, although they need to be appropriate for the specific situation. Banks need to have the capacity to assess farmer credit risk and be able to identify bankable opportunities. Insurance and risk-sharing arrangements can then increase the bank's level of comfort and enable them to increase their reach to more farmers that would otherwise be on the margin of the decision to lend.

[145] The Insurance Board (under MOF) made Crop and Livestock insurance products mandatory for all Non-life insurance companies operating in Nepal, by January 14, 2013
[146] Bangladesh: Pilot Project on Weather Index-Based Crop Insurance. Sovereign Project 46284-001

Appendix 4: Detailed project description

1. FINCLUDE's Goal is the:

   "Improvement in prosperity and resilience of poor and vulnerable Swazi smallholders and micro-entrepreneurs."

   Success will be measured against the targets of:

   - 8,500 individual entrepreneurs and MSME directly benefitting from a full range of FINCLUDE support ("full beneficiaries") increase profits (real net income) from farm or non-farm enterprise by >50%;
   - An additional 10,000 individual entrepreneurs and MSMEs take and dully repay collateral free loans under the FIRM without receiving other FINCLUDE support ("finance only" beneficiaries);
   - 5,600 Individual farm entrepreneurs and MSME direct "full" beneficiaries (80% of total) report a >50% increase in resilience score.

2. The Development Objective is:

   "To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through increasingly profitable and resilient links to markets and access to appropriate financial services."

   This will be measured against the targets of:

   - 6,800 beneficiaries' achieving annual return on labour in farm or non-farm enterprises of >120% of unskilled wage rate.

3. This requires the project to address economic aspects as well as specific social aspects to secure the greatest overall benefits.

4. The entry point will be to accelerate economic growth in the community, principally through the development of competitive inclusive clusters for specific agricultural products. In addition, to broaden economic opportunities in the village, the project will also support a smaller number of eligible individuals to develop non-agriculture related incomes, either through investment in their own micro-enterprises (e.g. tailoring, salon) or acquiring trade or technical skills to earn better income through paid work (e.g. as plumbers, electricians). These are collectively referred to as non-farm enterprises in the project documentation – even if the individuals concerned choose to work for someone else rather than start their own enterprise.

5. Yet economic growth by itself is necessary but not sufficient to deliver resilient socio-economic change. Recent experience in Swaziland in the development of the sugar industry have highlighted the risks of unintended negative consequences within households and local communities from shifting internal dynamics triggered by rapid improvements in incomes which can undermine the benefits of hard-earned economic growth. To mitigate this risk, the project will integrate targeted social mentoring processes in its supported communities. This will use proven techniques to support all households to take full advantage of the economic opportunities they have earned and avoid potentially damaging consequences, with more intensive mentoring offered to those households at highest risk. Economic and social aspects will be implemented as a single integrated process in the community, but are described separately below for the sake of clarity.

6. The development of the economic opportunities will require substantial private investment by individuals and businesses in addition to the public investment through this project and other programmes. The financing of the required private investments will require credit from banks and other financial institutions. The supply of credit to agriculture and other rural enterprises will be addressed under Component 2 while the demand-side issues for rural finance, such as business

skills, financial literacy and aggregation of demand for finance will be addressed as an integrated part of the cluster development process.

Each of the major elements of the project summarized in

7. Figure 1 and described below.

Component 1: Inclusive Cluster Development

8. **The project will catalyse the emergence of competitive clusters for a portfolio of products** with confirmed market potential and comparative advantages for smallholder production in the project locations. Specifically, product clusters will be prioritized which have:

(a) Clear, current market demand for the specific products - sufficient to absorb the expected increase in production;

(b) Substantial confirmed interest from:

  (i) traders and agribusinesses to increase their sourcing from smallholders and producer groups in the cluster locations;

  (ii) farmers, including smallholders and younger farmers, to expand and improve their production;

(c) Opportunities for competitive, profitable and sustainable smallholder production;

(d) Practical intervention opportunities for the project to facilitate the accelerated development of the particular industry and local cluster.

9. **Products supported must provide a realistic prospect of a good income in reward for hard work.** This means that products must be capable of generating net income per family worker at least 20% above unskilled-wage rates. At design this means target net incomes of E16,000 per year (USD1,250) - i.e. 20% above unskilled-wage rates, currently around E13,500 per year if working 250 days per year (approx. USD1,050). This is vital to help create a genuine appetite among the next generation of farmers (15-35 yrs) to live and work in their villages.

10. **To be genuinely inclusive, there must be profitable and realistic "investment pathways" for poorer and younger farmers** to become successful players in their cluster alongside their more established neighbours. This means that initial investments for all supported products must be affordable and lead to sufficient incremental incomes to enable reinvestment of part of the profits from each cycle to gradually expand production until it generates sufficient income at the levels outlined above. For the young, it is also essential that they see the first benefits quickly and feel they are on an upward path.

11. **The project will adopt a cluster development approach.** Clusters offer many advantages for smallholders in competitive commodity markets and can make it possible for clusters to be more inclusive. Clustering production to aggregate supply and reduce transaction costs between buyers and farmers as well as in the delivery of critical services (e.g. financial or technical services), is also vital if smallholders are going to be able to succeed in becoming reliable suppliers in the market. It is especially important for those younger and poorer households who are only able to make the minimum initial investments and must grow their production gradually from cycle to cycle. Clustering can thus help improve market access for small farmers and hence make the above investment pathways viable. In contrast, small farmers operating in isolation face problems attracting buyers and accessing competitive markets if only producing small volumes. As such the investment pathways are more challenging, often requiring much larger minimum investments to reach a viable minimum scale as a standalone producer. Similarly, banks see higher risks for small farmers operating in isolation and are less inclined to extend credit.

12. **Cluster development processes will be driven by the primary actors themselves, principally farmers and MSMEs.** Farmers and businesses are the ones who must make their investments successful and carry the risks of failure. It is they who must drive the process.

13. Facilitating an ongoing process of action-oriented dialogue and brokering among these key actors in each commodity cluster is a central element of the cluster development approach. The initial focus of these dialogue and brokering processes is grounded in immediate opportunities for actions and improvements that help build trust and momentum within the cluster. Only once momentum and trust begin to emerge is it feasible to jointly consider longer-term aspirations and begin to tackle them. The dialogue and brokering process among key cluster actors should establish jointly owned action plans and progress tracking for the development of their particular commodity cluster.

A. Cluster brokering and investment facilitation

Cluster selection and verification

14. For each supported commodity, the potential for the local cluster development will be re-confirmed by an initial rapid scan at start-up, including confirming buyers' demand, mapping, analysis of the cluster primary actors and supporters, and attractiveness of opportunities to smallholders, especially the next generation of younger farmers and to women and men – each of whom may have differing interests and constraints.

15. An opportunity verification workshop will be held for each commodity and cluster. The findings and evidence from the rapid scans will be presented back to representatives of the primary actors (producers, buyers, suppliers) to validate the conclusions and confirm if there are credible opportunities and commitments sufficient to justify FINCLUDE proceeding with the particular commodity or cluster.

16. The process of cluster identification will also collaborate with other organizations who are actively pursuing similar objectives. For example, this is expected to include working with the well run Inhlanyelo Fund as well as the more progressive bank such as the agri-business unit of Swazibank to identify potential market opportunities and cluster locations for the project to develop. These partnerships would then be extended to ensure these important actors become active participants of the cluster development process, including via the MCMs and investment facilitation processes.

Market-oriented mobilization

17. Mobilization of farmers and non-farm households into the cluster and project activities will be completed by a team of market-oriented social mobilizers. These may be either hired directly by the project of via an external service provider. The social mobilization teams will also be the mechanism through which business skills training is provided to almost all participating individuals, via a peer-to-peer system using a network of Business Skills Mentors nominated by the members of the producer groups themselves.

18. In working with farmers, the project will be free to work with existing farmer groups and organizations, and mobilize new producer groups focusing on the particular product depending on the reality in each community. As a general guide, based on past experience, existing groups should only be used as the entry point if a majority of their members want to join the specific commodity cluster concerned. If not, new producer groups should be mobilized.

19. It is expected that the starting point for each commodity in each village may fall into one of three categories and the detailed mobilization process may be fine-tuned to accommodate these different starting points:

(a) Existing active producer group focus on the target commodity;

(b) Existing production of the target commodity by many farmers but not organized in a producer group;

(c) Minimal current production of target commodity by farmers and no organized producer groups.

20. Where production of the product is new to the local area, the mobilization process is expected to include additional steps to either demonstrate the intended production system in the local setting or exposure visits to other producers in similar conditions for the farmers interested.

21. Further details of the mobilization and targeting processes are described in Appendix 2.

Multi-stakeholder cluster meetings (MCM)

22. The core of the cluster development approach is a rolling process of action-oriented brokering, dialogue and investment facilitation among the key actors in each cluster to catalyse investments and remove bottlenecks to increase trading and profits, and make the most of practical opportunities for growth.

23. MCMs are the central element of this process. MCMs will be held regularly (at least 2 times per year) at the cluster level in each cluster, initially facilitated by the project team but later jointly by the producers and agribusinesses themselves. Commercial and non-commercial suppliers (of technical or financial services or inputs) as well as government agencies and other Supporters would also be active participants of such meetings.

24. The focus of the meetings is to enable the primary actors (farmers and businesses) to jointly identify practical opportunities and bottlenecks for developing their cluster and corresponding priorities for individual or joint actions. The meetings also foster trust among the different players which is vital for sustaining longer-term commercial relationships. It also creates greater common understanding of the opportunities and challenges among primary actors but also critical suppliers, such as bank/MFI credit officers.

25. Industry multi-stakeholder meetings and processes, similar to those at the cluster level, level for will be facilitated periodically from Year 2 onwards for each commodity industry to identify and address emerging major issues at the industry and policy level. Representatives of the producers and MSMEs active in each of the clusters in a commodity should be active participants of the industry level dialogue and decision-making processes. Specific measures will need to be taken to ensure that the industry level process properly represent the interests of small farmers alongside those of other industry players and that decision making is not captured by business or technical elites.

26. **Investment Priorities** for private and public good investments and follow-up by the project and others are set by the MCM process, in particular via a rolling joint “cluster action plan” (CAP) produced for each cluster as a key output of the meetings.

27. The rolling cycle of multi-stakeholder meetings also create a very practical mechanism to locally coordinate the support of the various government and non-government initiatives that are relevant and active in the local area. This creates the opportunity to more systematically address the priorities and bottlenecks for development of the cluster and rural communities, by better coordination of various support programmes such as the projects under the Regional Development Fund which is decentralized. This is especially useful in addressing the need for ‘Public good’ investments identified through the MCMs (see below).

Investment facilitation

28. Driven by the **Investment Priorities** set through the MCM process, two types of investment are likely to be needed, each of which will be facilitated by the project when needed:

(a) **Private investment** – requiring private investment by a private individual, producer group or enterprise (e.g. buyer or supplier) who will capture most of the benefits from their investments. Some investments can happen without external support, while others may require some form of enabling public support - brokering, technical advice or financial support.

(b) **Public good investment** – where the majority of benefits are captured by a broad network of primary actors and it is not feasible for the investments to be financed as a private enterprise.

Private investment facilitation

v. Business-to-business (B2B) follow-up meetings

29. Shortly after the MCMs (within 1-2 weeks), bilateral follow-up meetings will be take place, typically between a business (either a buyer or supplier) and a set of farmers who met during the MCMs and identified specific opportunities to do business together. In the early stages of cluster development, these meetings will be facilitated by the project team to help build trust among the partners.

30. The B2B follow-up meetings will typically focus on developing and negotiating practical trading plans between farmers and businesses to do business together. Experience suggests that it may take 3 or more follow-up meetings between farmers and the business before a final agreement is negotiated.

31. In turn, the agreed trading plans will often lead to the need for specific actions or investments to be made by the farmers, business or both. The investments and actions may be taken individually or jointly, depending on what has been agreed.

vi. Investment planning

32. Good quality but minimally complicated investment plans will often need to be prepared by the farmers and MSMEs in responses to their agreed trading plans or for their own business development purposes. It is important that such plans are well informed, credible and realistic and based on sound technical and business foundations without being unduly complicated.

33. In many cases for small farmers and MSME they may require some specific technical support to prepare well-informed investment plans that can be presented to banks for financing. The project will facilitate those requiring such support to acquire it from suitably experienced service providers, with a strong preference for services from commercial service providers in order to develop these critical support markets.

34. Farmers will already be participating in business skills mentoring in their producer group by this stage of the process. They should therefore have growing confidence in understanding the financial aspects of the farm investment plans they are now considering. Depending on the technical complexity of the farm-level investment required, the project will arrange additional pre-investment technical advice to the farmers to ensure the plans are sound, including in terms of climate resilience.

35. Agribusinesses requiring additional technical support in developing their detailed investment plans will also be supported by the project to identify and buy-in the necessary advice.

36. Where the investments are expected to require additional technical or business advice during implementation, the costs of such advice must be included in the investment plans themselves.

37. To foster the vital support markets for such investment advisory services that are essential for self-replication and scaling-up, the project will use commercial service providers wherever possible with the costs paid by the service users. Arrangements for deferred payment may be explored by the project to ensure the advice provided gives the expected results and there is accountability in the support markets. Systems for customer review and rating of service providers will also be explored to increase transparency in these markets.

vii. Loan Financing and savings mobilization

38. The project will facilitate cluster participants to link to partner FIs to apply for loan finance if need for their investments. Bank and MFI officers are expected to already be participating in the MCM

and cluster process, so should be increasingly familiar with the market opportunities and risks by the time the loans application begin to be submitted.

39. Where investments are to be made as multiple small investments by several cooperating farmers in a community, the loan applications and investment proposal will be aggregated and pre-screened to ensure adequate quality and completeness before they are submitted to interested banks. For multiple similar small investments, loan application may either be consolidated into a single loan application or as a single bundle of multiple smaller loans depending on the decisions of the applicants and the FIs.

40. Assessment of loan applications and loan decisions will follow the FIs standard procedures and the project will not be involved in this process.

41. Similarly for savings, the project will place a strong emphasis on the importance, role and practice of savings through its business skills and financial literacy training. While training is ongoing, participants will be encouraged to open savings accounts, either with banks, local SCG or via mobile-money if available, and begin saving immediately – putting their newly acquired knowledge into immediate practice.

42. FINCLUDE’s measures to increase the supply of loans are described under Component 2.

viii. Execution of investments

43. Investments will be implemented by the farmers and MSMEs themselves who will carrying the risks and rewards of their own investments.

44. However, investment implementation will be supported through the ongoing process of producer group mentoring. Farmers will be supported to buy the necessary quality inputs and technical services they need for success. Where adjustments are needed to their plans during implementation, they will be supported to consider the cost and benefits of the different options and prepare revised plans that best suit their situation.

ix. Investment supervision and reporting

45. For all FINCLUDE facilitated private investments, especially those made with loan financing, supervision and reporting of investment implementation and results will be carried out by the Cluster Development Team (CDT) as part of their ongoing engagement and coaching with the producer groups and SMEs.

46. Data on performance of the investments will be compiled and analysed via the FINCLUDE MIS. Where potential performance are identified, the Cluster Development Team will work with the investor (farmer / MSME) and any concerned FI to take corrective actions to prevent the investment failing.

47. Supervision will include both business and technical aspects to enable early identification of potential problems so that farmers and MSMEs can take corrective actions before they run into serious difficulties that put their investments at risk.

48. FINCLUDE will introduce an automatic ‘red flag’ reporting system in which the project MIS automatically generates weekly “red flag” reports sent to responsible managers that highlight records of specific household investments of concern that can be followed up by the CDT. FINCLUDE will collaborate with partner FIs on a similar approach through which FIs will also be able to notify the project teams if they have cause for concern of the performance or loan repayments for a particular borrower who is part of the project that would then trigger a follow-up visits by project or FI staff.

49. Where there is a mass default in a group or Chiefdom on loans facilitated by the project, the causes will be investigated, including with the local authorities. If there is no evidence of force majeure or other extenuating circumstance then the concerned group or Chiefdom will be exclude from future project activities until the debts are cleared.

'Public goods' investment facilitation

50. A variety of 'public good' investments are anticipated to be needed during the project period to help grow competitive and inclusive clusters. These may range from 'big ticket' hardware, such as irrigation schemes, farm access road or wholesale livestock markets, to less expensive 'software' investments such as market research of priority markets or action research on improved varieties or production technologies to improve resilience in specific agro-ecological zones.

51. Thankfully, there are numerous ongoing government and non-government support initiatives ongoing around the country. Many of these are well resourced and share similar core objectives with FINCLUDE to raise rural incomes. FINCLUDE will actively encourage these 'Supporters' of the targeted clusters and commodities to participate in the MSM processes and help develop a more coordinate support response.

52. FINCLUDE's role for 'public good' investments is, therefore, primarily as an 'integrator' of existing support initiatives of the government and others. Through the MCM process, FINCLUDE will create a practical mechanism and space for the various Supporters to develop a common understanding of the opportunities and constraints in the clusters and the relatively roles that each can play in addressing these with their resources.

53. Where there are gaps in available resources to address critical 'public good' investments that have been priorities by the farmers and business in a cluster, FINCLUDE will be able to mobilize resources from its own Sector Development Facility implemented either on their own or combining with resources of other non-FINCLUDE sources.

i. Sector Development Facility (SDF)

54. A Sector Development Facility will managed directly by the PMUs for investment in "public goods" that address specific bottlenecks to the cluster development identified by the primary actors themselves, typically through the multi-stakeholder cluster meetings. The SDF will focus on "public good" investments only that cannot reasonably be delivered through private investment in the current context of the local clusters.

55. The types of investments possible under the SDF will include, for example: expansion of import quarantine facilities (e.g. required to supply cattle fattening feedlots), action research on production/post-harvest issues, variety/production trials in targeted agro-ecological zones, piloting and demonstrating appropriate innovative and climate smart technologies and production systems (e.g. zero energy cooling chambers, metal silos or hermetic bags for storing grains/cereals, etc.), developing and testing locally formulated feed recipes adapted to specific AEZ, upgrading public testing labs or sanitary and phytosanitary (SPS) inspection capacity at local level, piloting novel or untested business models.

56. Investments under the SDF will be managed as distinct sub-projects, implemented either directly by the project teams or a suitably qualified contracted organization from either the private or public sector. Selection of the implementing partner for each sub-project will be based on purposeful selection of the best qualified to deliver the sub-project objectives and activities but with an element of competition where multiple equally-well qualified and interested potential partners are available. While SDF will focus on "public goods" in support of the cluster or industry development, the private actors will be expected to make a financial contribution of at least 5% to all SDF sub-projects to confirm that these are indeed an immediate priority for the cluster actors themselves.

57. SDF Guidelines will be prepared as part of the PIM and shall govern the contracting of IFAD proceeds under a Private Public Partnership Framework/Model unless these resources are used by the PMU to procure goods, civil works and consultancy services which would then be governed by the agreed procurement procedures of the project.

58. The SDF will be complemented by, and jointly managed with, the Climate Investment Facility (Component 3), contingent on climate co-financing.

Support market development

59. Vibrant support markets, including commercial supply of inputs and services (e.g. technical, financial) are essential for sustaining competitive clusters and also for enabling other clusters to emerge to copy the initial successes (sometime called “crowding in”). Within profitable clusters and commodity sectors, the costs of such services and inputs should be an affordable routine business cost for producers and businesses and should not require external subsidy.

60. FINCLUDE will pro-actively foster the development of support markets, including market-based non-financial services and input markets, for all supported commodities and clusters. Such services are expected to include: for livestock – animal production and nutrition advice and services; veterinary services; specialist equipment suppliers (e.g. incubators); feed and veterinary medicine suppliers. For crops these are expected to include: crop production advice; crop protection services, mechanization services (especially for field crops such as legume); equipment suppliers (e.g. drip irrigation, trellis nets, grading machines); grading and packaging services. In addition, transport, storage and marketing services are also vital and FINCLUDE will facilitate producer groups, cooperative and SMSE to invest and develop these services.

61. Historically, the public sector has dominated the provision of many services, often for free or with heavy subsidies. As such, FINCLUDE will need to have a strong focus on fostering the growth of networks of competent market-based service providers within the context of a pluralistic agricultural service framework - that is the basis for the recently drafted agricultural extension policy. It must stimulate demand for market-based services in parallel to building up supply of such services.

62. To address this, FINCLUDE will draw on successful experience from elsewhere in the development of these markets. For example, in the case of horticulture services, local traders and packhouses will be encouraged to recruit their own agronomists to provide embedded service to the producer groups supplying them. Over time, such embedded services may remain embedded but often convert to independent commercial service providers working in the same clusters once producer demand for such services become more established. Similarly, as producer groups and cooperative mature they will be supported to develop the business plans for setting up their own service provision to their members and others, including recruiting their own technicians. For livestock production and health services, effective approaches have been to develop networks of independent local private livestock technicians that are then facilitated to form jointly technician-owned service enterprises or cooperatives. FINCLUDE will learn from such experience and identify those approaches best suited to the conditions and opportunities in each cluster.

63. As such, private investment by suppliers of critical inputs and services will be encouraged by the project – either by SMEs, cooperative or individual micro-entrepreneurs wanting to provide commercial services to producers or others in the supply chain. Existing and potential suppliers will be encouraged to join the MCM processes to better understand the demands and opportunities in the clusters. It will also provide opportunities for them to establish networks of potential future customers for their services. Such small commercial suppliers and service providers will be provided with the same investment facilitation support as producers and buyers, including investment planning support, pre-investment technical and business advice, facilitation in accessing loans as well as mentoring during execution if needed.

64. It is expected that many of the technical services needed will provide opportunities for youth to engage in the clusters in non-farming roles. Some of these opportunities may be as the technicians hired by buyers or cooperatives to work with farmers or in roles such as grading, packaging, QA or marketing for cooperatives, buyers and other actors in the supply chain.

65. MoA extension teams, that will be part of the core implementation teams, will play a critical role in providing technical backstopping and support to the emerging private service providers as they have good technical knowledge and skills but lack the budgets and resources to provide the scale of outreach demanded by farmers. Their role in mentoring networks of good quality local private service providers will help, ensure that more farmers have better access to quality services. As part of this

process, additional professional and technical training to private service providers will be financed under the Sector Development Facility, if necessary.

66. **A critical policy issue for support markets** with direct practical implications, is to ensure that free or heavily subsidized services are not provided unnecessarily to profitable clusters and commodities that can afford to pay for them. Providing subsidized services where they are not needed will directly undermine the emergence of sustainable commercial support markets and create continued dependence on very limited public resources. These issues of coordination and alignment are aligned with the new draft extension policy of MoA which envisages a pluralistic extension system, of private and public provision with each focusing on their appropriate roles. In support of the operationalization of this, FINCLUDE will:

(a) at the policy level, provide specific support to MoA to clearly define the future roles of MoA and the public sector in a vibrant pluralistic agricultural extension system for Swaziland.

(b) address these issues at a practical level through the MCM and local coordination processes.

Research & Development

67. Linkages between the project and local and international research institutions will be fostered to increase availability and use of improved technologies already developed but not yet widely adopted. The primary mechanism for dissemination of these improved technologies will be via commercial service markets and the large and small commercial service providers that will be encouraged to expand by the project.

68. Research institutions will also be encouraged to participate in the MCM processes in order to introduce their technologies to producers and SME and also to gain further insights into the priority issues of concern to the clusters where further research could be targeted. Where such issues are considered a priority by the primary actors, the project will be able to mobilize resources from the SDF to support specific pieces of research.

B. Building capabilities of producers and groups

Business skills mentoring

69. Business skills for farmers are vital if they are to succeed in the supported clusters and critically important for households to properly assess opportunities and risks, enabling them to better negotiate their interests in value chain transactions and become reliable partners to agri-businesses in the clusters. Being better able to assess the likely cost and benefits of investing in their farming enterprise will also equip rural households to make more informed choices as to the real affordability of finance and loans to support their farm investments. It is especially important that young women and men gain these business skills and so will be prioritized for these activities.

70. Business skills training, focused on farming as a business, will be provided to all interested farmers in a cluster through a peer-to-peer process. Business Skills Facilitators (BSMs) will nominated by the farmers in each village from among their peers and will be trained to provide business skills to all interested participating farmers in their local community. They will be paid by the project for training sessions and are expected to gain a high level of skill and confidence, contributing increasingly to supporting the preparation of farm investment plans and helping with collective negotiations between their group and traders and buyers. As residents in their community, these skills will remain after the project and continue to be available to support their peers in the future in preparing investment plans, loan applications or joint negotiations with new prospective buyers, allowing for easy up-scaling of successful models.

71. Individuals who are interested to invest in their own micro-enterprises or skills training will also need to be able to demonstrate the business skills if they are to secure loans from a financial institution and so will also be offered the opportunity to participate in the business skills classes.

72. The scope of the business skills training will focus on:

(a) Financial literacy and household economy;

(b) The importance of saving and how to do it;

(c) The role of remittances and how to use them to best effect;

(d) Farming as a household business, including record keeping and climate resilience considerations (similarly for other non-farm household enterprises);

(e) The changing climate and how to factor it in to your business decisions;

(f) Group management and governance for business purposes;

(g) Commercialization, marketing and negotiation – becoming a reliable player in the market.

73. **On remittances:** training modules to support households, including both women and men, to better prepare for and make use of migration and remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment.

74. **On climate resilience**, the producers will be guided through a facilitated process to re-confirm that the product for the cluster they have chosen to join is a sensible choice for them individually given the local agro-ecological conditions and patterns of expect local climate change. The process will also help farmers to consider if there are specific 'no regrets' adaptation or investments to their intended production practices and investment plans for their chosen product that would increase the climate resilience of their farm investments, thereby reducing the chances of failure.

75. To validate their choice of production, farmers will be supported to compare their chosen product to several appropriate alternative options (crops, livestock and other livelihoods) evaluated through a simple cost benefit analysis. The objective being that farmers make climate informed investment choices, factoring in 'no regret' adaptations into their investment plans.

76. Implementation arrangements for these climate adaptation modules will include ToT training for all the Cluster Development Teams and officers and representative of Swaziland Meteorological Service, National Disaster Management Agency, local extension services and local institutions and farmers organisations.

Producer group coaching and graduation

77. FINCLUDE's objective is that all producer groups (whether formally registered or not) should graduate to being fully independent, financially robust and self-managing within 4 years of project engagement.

78. This will be delivered through coaching of the group in-line with the natural stage of development of the group itself and its next target level of development given its own plans in the cluster and beyond. This coaching also involves the use of self-diagnostic and self-improvements tools, so each group can "own" its development process and regularly benchmark its strengths and weakness against objective measures. This enables each group to priorities specific capacity development actions to focusing on the specific elements that are needed for their group to progress to the next level in the graduation process. Group coaching will be led by the social mobilization team with support from the CDO.

79. If farmers are not already in active producer groups, such groups will naturally coalesce through the increasing engagement in the cluster processes driven by shared interest and clear mutual

benefits of increasingly working as a group on critical activities – such as collective purchasing of inputs and collective negotiation to attract more reliable buyers.

80. It should be noted that the project will require a group to demonstrate a very high level of maturity and capacity before the project would support them to invest in major common productive assets – such as group owned feedlots, packhouses or processing facilities – as these require professional management well beyond the capacity of recently mobilized groups, thus creating substantial risks to the financiers and also creating dependency of the group on external technical support services which undermines its independence and sustainability.

Social mentoring

81. Social Mentoring will be offered to FINCLUDE beneficiaries to address risks and barriers and ensure that households are able to maximize their socio-economic progress. Mentoring activities will be delivered at community level and in groups. Households in which husband and wife are both present will also benefit from social mentoring at household level. It will be integrated in a larger mentoring package focusing on producer groups mentoring and business skills building based on the use of the peer-to-peer Business Skills training methodology, used successfully by IFAD and other agencies in Asia.

82. On remittances, the social mentoring processes will also address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families, and how such issues can be managed so that they do not undermine the positive opportunities associated with migration and remittance.

83. Social mentoring activities will be inspired by several evidence-based approaches:

(a) The Gender Action Learning System (GALS) – for the development of a joint household vision, and development of corresponding plan; discussing opportunities to assist youth in effectively engaging in the local (rural) economy (access to land, mentorship, etc.); assessment of risks, barriers and opportunities.

(b) Stepping Stones – a behaviour change methodology facilitating the assessment of risks associated with to HIV and AIDS and paths to reduce / mitigate them.

Migrant households and Remittance

84. Training modules to support households, including both women and men, to better prepare for and make use of migration and remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment. Similarly, the social mentoring processes will also address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families, and how such issues can be managed so that they do not undermine the positive opportunities associated with migration and remittance. Migrant households and their individual members will be enabled to balance the costs and benefits of migration with the concrete opportunities to invest in cluster commodities and activities.

C. Cluster roll-out and mobilization schedule

85. The anticipated mobilization and start-up of the clusters is designed to be realistic and manageable. It is specifically intended to provide sufficient time in the first two years of the project for the Cluster Development Team to gain confidence and experience in the approaches to be used. As such the CDT will be over-staffed in the first two years so that the team has time and resources to learning on the job.

86. It is anticipated that an average of 4-6 producer groups will be mobilized into each cluster at the start. A typical newly mobilized group may have 10-25 members or more when they initially start.

87. Within cluster, further rollout and deepening of outreach then happens through two mechanisms after the initial cluster start-up: (see Appendix 2)

(a) New producers join groups, deepening the engagement in the village as others see the benefits and opportunities and are keen to engage;

(b) Additional groups mobilized into clusters once the cluster processes are running and gaining momentum and visibility, either pre-existing producer groups or newly mobilized ones.

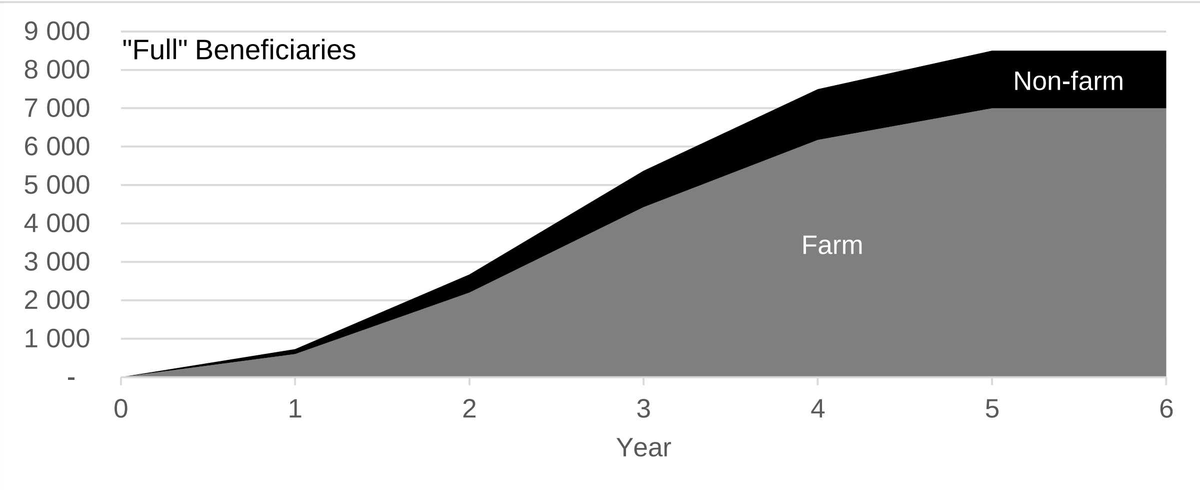
88. As an approximate guide, a typical cluster when mature is anticipated to include around 8-12 groups of 30-50 farmers per group – approximately 250-500 producers. These would ideally be supplying regularly to 3-8 buyers to ensure adequate competition. However, clusters may vary significantly in their size and composition.

Table 16: Cluster & group mobilization schedule for "full" beneficiaries

Year	1	2	3	4	5	6	Total
New clusters in year	7	8	-	-	-	-	**15**
Cumulative clusters active	7	15	15	15	15	15	**15**
New groups in year	40	80	55	-	-	-	**175**
Cumulative groups active	40	120	175	175	175	175	**175**

89. Based on the above roll-out schedule, the scheduling of new beneficiaries joining the projects is illustrated below.

Figure 17: "Full" Beneficiary engagement schedule



D. Candidate Commodities

90. A critical part of the project targeting and inclusion strategy is the sound selection of suitable commodities and clusters to be supported. The principal criteria to be used in the final selection of commodities are summarized in para 69 (Main PDR). In addition, the selection of commodities must also consider the following factors (i) potential for market growth demonstrated by unmet market demand either in the domestic or export markets; (ii) production potential demonstrated by current level of production and agro-ecological suitability for expansion (production and productivity); (iii) potential outreach of smallholder households (current number of smallholder producers); (iv) profitability (net returns on investment/per worker); (v) potential for inclusion of women, youth and other marginalized groups; (v) nutrition sensitivity; (vi) enabling institutional and business environment for market-led development; and (vii) existence of other ongoing initiatives (for complementarity/ synergies or to avoid duplication).

91. **Candidate Commodities:** Based on the above criteria, the table below summarises the commodities short-listed for possible inclusion in the project and provisional estimates of potential

outreach in each via the project. These are based on the data and information gathered during the detailed design mission and will need to be verified during finalization of the design.

Table 1: Candidate commodities and indicative expected outreach

Commodity	Outreach smallholders
Meat & livestock	**4,500**
Red meat	2,000
Poultry (incl. indigenous chicken)	1,500
Pigs	1,000
Crops	**3,000**
Vegetables	2,000
Legume seeds	1,000
Total	**7,500**

92. A brief assessment of each is provided below.

93. **Red meat:** Cattle and goats constitute the largest portion of Swaziland's livestock sector. Current estimates of livestock population by the Ministry of Agriculture (MoA) show that Swaziland has a national herd of 525,667 beef cattle owned by 52,243 farmers and a national flock of 501,496 goats owned by 37,440 farmers. The rearing of cattle and goats is spread in all regions and agro-ecological zones of the country although the highest concentration is in the Lowveld, largely in the hands of smallholder farmers on Swazi Nation Land (SNL) tenure system (90% for cattle, 97% for goats). There are however a number of areas with significantly high concentration of cattle and goat populations sufficient to view these as emerging red meat production clusters. These include: Mankayane in Manzini region; Mbabane and Mayiwane in Hhhho region; and Nhlangano in Shiselweni region (Table 3).

94. The market demand for red meat produced in Swaziland appears to be significantly strong both in the domestic market and exports, internationally, to the EU and regionally, to South Africa and Mozambique. The beef product line is however more developed than that of goat meat. The country currently exports to the EU and has set-up a fairly well-developed infrastructure for quality assurance and traceability. The country has an accredited export abattoir (Swazi Meat Industries - SMI) and a handful of privately run small abattoirs supplying the local market. Discussions with SMI shows that Swaziland has not been able to reach its EU export quota for beef over the years, pointing to a large unmet demand in the market. There are also indications that demand for beef and goat meat in the domestic market remains unmet. This unmet demand is largely accounted for by production constraints limiting the supply of quality live animals meeting market requirements for red meat. Key constraints include pasture management and animal feeding practices; herd management (including poor commercial off-take practices, particularly for goats); inadequate water infrastructure development particularly in the Lowveld; and inadequate coverage of animal health and production services to smallholder farmers.

95. **Indigenous Chicken:** Swaziland has a chicken population of 1.6 million birds reared by slightly over 50,000 farmers spread across the country. Of these, almost half (763,000) are indigenous breeds, 660,000 (41%) are broilers and the remaining 160,000 (11%) are layers. Indigenous chicken are the most widespread, owned by 50,161 farmers (98%) while broilers and layers are kept by only about 800 farmers including 2 large-scale integrated chicken farms in the peri-urban areas of Mbabane and Manzini. Although traditionally indigenous chicken are largely kept for subsistence purposes, there are good prospects for commercialization of this commodity line. Unlike broilers and layers, indigenous chicken rearing is largely a smallholder enterprise currently with an average holding of just 15 birds per farmer. The investment requirements for building a minimum threshold for profitable operations (300 birds) is relatively small particularly given that most smallholder farmers already have the starter breeding stock. It is therefore a commodity line with good potential for the participation of women and youth given the low investment entry requirements (including lower

dependence on arable land). It is also highly attractive from a household nutrition perspective (eggs and ease of slaughter or sale for dietary diversification).

96. The market growth potential for indigenous chicken appear strong. Recent assessments show that only a small part (35%) of the domestic market is currently met (TechnoServe, 2017). A key constraint facing this commodity line relates to the linkages between small producer and key market segments – e.g. supermarkets, caterers – and a shortage of aggregation and hygenic slaughter houses accessible to a diverse producer base. In terms of primary production, key issues are cost of feed and adoption of good husbandry practices for production efficiencies and improved productivity. Given the small numbers of birds per farmer, the organization of producers for joint action in dealing with input, output and service markets is also an important area that requires improvement.

97. **Pork:** The population of pigs in Swaziland currently stands at 43,000 kept by slightly over 8,000 farmers. The majority of farmers (76%) however still keep indigenous pig breeds which present little prospects for profitable business. There are however 1,700 farmers who have started keeping exotic breeds and now command slightly over half of the pig population in the country. While this number is still small, it comprises smallholder farmers who have entered into pig rearing as a business. Available information on market potential suggests that the growth potential for pork is very high as the country is currently producing only a small proportion (estimated at 15%) of the domestic demand with the rest met through imports.

98. Organization of farmers for joint action in sourcing inputs (including breeding stock, largely from South Africa), accessing services and investing in improved access to markets stands out as a key area holding back growth of this value chain. Other key areas include availability of specialized animal health and production services for pig farmers, availability of quality slaughter and cold storage facilities, high cost of feeds, and access to financial services for expansion of piggery enterprises among smallholder farmers.

99. **Vegetables:** Information from the Ministry of Agriculture shows that Swaziland has slightly over 5,000 ha under vegetable cultivation by an estimated 20,000 farmers. Two main groups of vegetables are cultivated: conventional vegetables mainly for the domestic market and baby vegetables largely for the export market. The leading product lines for conventional vegetables include Irish potatoes, tomatoes, cabbages, onions and spinach. There are over 10 product lines for baby vegetables but the main ones are green beans, cucurbits, baby marrows, baby broccoli and baby cabbages.

100. Vegetable production is spread out in all parts of Swaziland with concentrations in enclaves with water availability for irrigation during the dry season. Production is however mainly driven by market seasonality generally structured to target off-pick production cycles of the farming season of large-scale producers in South Africa. Given the open nature of the Swaziland market within the context of Southern Africa Customs Union (SACU) and the efficiencies of the large-scale production systems of South African agriculture, Swaziland smallholder vegetable farmers can hardly compete in the domestic and regional markets other than during off-season (with respect to South Africa) and in commodity lines which are highly labour intensive. A rapid assessment of the vegetables sub-sector in Swaziland however shows that the industry has some good prospects for growth in both the domestic and export markets given the diverse agro-climatic zones of the country which allow year-round production and emerging business partnerships between smallholders and a number of market players who are targeting niche commodities and seasonal windows for production of various commodity lines. Key areas requiring attention include stronger farmer organization for attaining minimum volume, quality and supply consistency thresholds required for sustainable engagement with profitable market; irrigation infrastructure development; adoption of productivity enhancing technologies, innovations and management practices (TIMPs); and access to financial services.

101. An assessment of the development landscape in Swaziland shows that there are a number of development initiatives targeted at the vegetables sub-sector. Key among these include a recently launched EUR 13.8 million High Value Crops and Horticulture Project (HVCHP) financed by the EU targeting both conventional and baby vegetables as well as IFAD's Smallholder Market-Led Project

also targeting conventional and baby vegetables. These two projects involve the participation of government-owned National Agricultural Marketing Board as the lead market development agency for targeted smallholders and investment in production (irrigation) and market infrastructure (collection centres and pack-houses). The added value for FINCLUDE to target the vegetables is to support the development of a more sustainable, private sector-driven market access for smallholder farmers. There are already emerging business partnerships between farmers and private sector market players (traders, supermarkets, exporters, etc.) which can be a good starting point within the FINCLUDE cluster development approach.

102. **Legume seeds:** Grain legumes are a staple of the southern African diet and widely grown in Swaziland. They are particularly well suited to dry-land cropping with minimal initial entry barriers, meaning that it is likely to be very inclusive. (see example of turmeric – another dry land crop with low entry barriers - for highly inclusive impacts in Nepal, and hence the potential role of legume seeds for FINCLUDE – see Table 5, page 43: Lesson learned: evidence on HVAP’s highly effective inclusion of poor and marginalized households.

103. The potential market for Swazi legume seed spans the southern Africa region, facilitated by mutual recognition agreements for seed certification within the Southern Africa Development Community. In the last 3 years that has been increasing interest from domestic and regional seed companies to increase sourcing from Swaziland, for example for sugar beans. In parallel, several smallholder-based production clusters have emerged and even potential for some distinct product in strong demand for regional exports – e.g. speckled sugar beans.

104. Major issues to be strengthen are aggregation, processing and market linkages. In processing, key issues are maintain high seed quality, for example avoiding mechanical or fungal damage during processing, storage and transportation. Farms need to begin to work together to facilitate more efficient linkages to buyers, input suppliers and services. Mechanisation services are also important to increase returns on labour in primary production, for example in land preparation. Similarly irrigation, including from in-field catchment ponds, can substantially raise the productivity and quality of primary production – including, importantly, in reducing the variability of yield from year to year which is important to become a reliable seed supplier for export customers who value dependable supply.

Rural Financial Sector Swaziland

WEAKNESSES

- limited options to access credit for rural micro-entrepreneurs
- limited access to quality financial services.
- only one operational MFI
- scattered SCGs with untapped potential
- information asymmetries between demand and supply of credit
- weak business propositions
- widespread financial Illiteracy
- inability to meet collateral requirements, especially for investments on Swazi land.
- missing secured transactions system and moveable assets registry
- high transaction costs for banks due to small loan sizes, high frequency of transactions, and heterogeneity of borrowers
- underdeveloped insurance sector
- lacking credit information
- savings culture not very strong

STRENGTHS

- the banking sector is liquid and well capitalized
- Inhlanyelo Fund (MFI) operates successfully in many chiefdoms
- excess liquidity in SCGs
- well developed mobile money network
- RFEDP MFU has become an experienced institutional agent promoting financial inclusion

THREATS

- banks not comfortable investing in untested value chains, with untested stakeholders
- high transaction cost for small loans
- memories of collapsed SACCOs
- heterogeneous training curricula among providers

OPPORTUNITIES

- money is lingering in deposit accounts used mainly for commercial transactions
- SwaziBank and FINCORP already exposed in agribusiness (other than sugarcane)
- banks have experience and trust working with developed value-chains
- YEF has been recently restructured and will be operational
- plethora of SCGs and SACCOs
- plethora of NBFIs
- underutilized government funding schemes
- numerous capacity development providers

Figure 18: SWOT for Rural Financial Sector in Swaziland

Component II: Expanding Supply of Rural Financial Services

105. Financing has been a challenge for most interventions targeting rural MSMEs in Swaziland. In most cases project designers had to revert to grants to overcome this hurdle. Although most of the population transacts with financial institutions, when it comes to accessing finance for rural micro-investments or income generating activities, there are very few options available to the smallholders. In fact, the banks (although liquid and profitable) and the DFI are unwilling to extend loans smaller than SZL300,000 given high transaction costs of risk assessment. Furthermore, there is only one MFI operating nationally at chiefdom level, which makes it impossible to fully cover relevant demand. SCGs are large in number but cater mainly consumption, health and education needs. Savings culture is missing among smallholders. Banks expressed interest in investing in agriculture and agribusiness, but assert they don't have information on the relevant demand and particularly they have not developed a mechanism through which to channel creditworthy proposals and rural entrepreneurs with business acumen to their credit officers. Banks also complained about the heterogeneity of business proposals, in fields in which banks have no prior experience. As a result, banks consider most rural investments (apart from these relating to sugarcane) as bearing high risk and therefore either decline them, or charge high interest rates and request for collateral that cannot be provided by applicants especially for investments on Swazi National Land[147]. The GoS initiated a number of efforts to support MSMEs, the poorer segments and youth with financing schemes, most of which were not successful, and therefore GoS is now trying to streamline their operation. Luckily, the Youth Enterprise Fund (YEF)[148] has been recently revived with a new business model and management structure. In this financial ecosystem the CFI has become an interlocutor valued by all parties involved and can therefore become the broker bridging demand and supply of credit.

106. Financial inclusion refers to access and quality of a wide range of financial services not just access to credit. That would imply correct market segmentation, targeting of customer service and availability of data on the density, needs, habits and disparities of the various segments of the rural communities. Different strata of the beneficiary structure would require different mixes of the following financial services: asset protection, payment and transaction mechanisms, insurance from catastrophic events (health, natural events, etc.), start-up capital, consumption smoothing, risk protection, safe saving and remittances. Low usage of credit is indicative of a number of barriers to uptake: rural communities are not aware of the various financial products available while failed efforts to access credit for reasons that are not clear to the applicants have developed negative perceptions (banks not transparent, charge high fees and are not targeted at the ordinary man).

107. FINCLUDE addresses comprehensively demand and supply side constraints. It develops credible rural business value propositions of size large enough to entice the appetite of banks to engage in offering them credit, while it exploits all the available resources of the financial sector and offers incentives to financial institutions to expand their offerings and actively participate in rural business development. In parallel, it supports debtors in meeting timely their debt service and creditors mitigate their risks. As a result, the project is expected to introduce the desired quality of service to its beneficiaries and by extension to promote it in the rural financial sector in general. FINCLUDE addresses the supply side constraints by a) tackling the information divide; b) expanding access to credit; b) assisting beneficiaries in becoming responsible borrowers and financial institutions in developing confidence in rural endeavours other than the sugarcane value chain.

108. Activities under the component fall into four areas:

(a) Addressing the information divide between supply and demand for credit;

(b) Partnerships with FIs to increase loan supply and improve the savings culture;

[147] On which they don't have property rights.
[148] Under the Ministry of Sports Culture and Youth Affairs

(c) Financial Instrument for Risk Management– FIRM (Credit Guarantee Scheme)[149];

(d) Capacity Enhancement and Policy Development Facility (CEPD);

(e) Remittance and savings promotion;

(f) Partnerships to increase wider quality of credit demand.

A. Addressing the information divide between supply and demand for credit and other financial services

109. There is a material lack of reliable and actionable data on both the demand and supply of rural financial services in Swaziland. This makes it extremely challenging for FIs operating in the sector to grow profitably and for policy makers to know where and how best to support the sectors development. FINCLUDE will begin to address this information divide through three information platforms for the industry:

i. Financial demand and supply database

110. FINCLUDE will produce an active database through which it will monitor the evolution of both active demand and supply for financial services throughout the project's lifecycle. It will regularly update data on the status of its beneficiaries by cluster mobilisers, and data for the rest of the rural population by cooperating institutions (initially MoA, MoTAD, SEDCO and SNAU).

111. This will be done through a comprehensive financial demand and supply survey.

112. **On the supply side**, the survey will catalogue available credit, savings, remittances and other financial products offered by the various types of lenders as well as other types of opportunities for product financing, receivable financing, physical asset collateralization, insurance, credit guarantee etc. Credit providers will be profiled according to loan size offered (minimum, maximum, average), interest rates (minimum, maximum, average), term (long, short, in months or years), types of loans (consumption, short or long term investment, inputs), security required, types (individual, group, etc.), form (cash, kind, other), other borrowing cost, etc.

113. The survey will also assess the level, and conditions under which, each of the financial institutions is willing to engage in non-sugarcane related rural farming or non-farm activities. This part of the survey will gauge perceptions (how financial institutions perceive the rural financial ecosystem) and will collect facts (number and size of loans, investment type, delinquency rates, etc.).

114. Perceptions as well as loan portfolios will be monitored at regular intervals (as survey data updates[150]) in an effort to demonstrate how credit providers react to the project's interventions and what effects these interventions have on them.

115. **On the demand side**, the survey will catalogue characteristics of active and potential rural borrowers and savers i.e. size of household or MSME, types of activities, level of financial literacy, yearly income, savings culture, business acumen, education, size and type of investments envisaged, ability to service a loan, etc. Participants will be the basis for a market segmentation of rural credit demand. The analysis will segment the target market to distinct categories sharing similar traits, constraints and needs (agricultural or non-farm production, financial condition, business experience). The profiled types will also be statistically delineated in terms of density, needs, habits and geographic distribution.

116. As it did with the financial institutions, the survey will assess the level of interest of the defined types to engage with financial institutions as well as under which conditions they are willing to do so (or have done already). A parallel assessment of initial perceptions on the attitude of financial

[149] To eliminate the risk of moral hazard the project will make every effort to keep the existence of the credit guarantee scheme contained between the FIs, the CBS and the CFI. To this effect the scheme will not be called a guarantee.
[150] FINCLUDE will regularly update data on the status of its beneficiaries with data collected by project agents, and for the rest of the rural population with data collected by cooperating institutions.

institutions towards investing in rural endeavours will be the baseline against which the project will assess its effectiveness in changing the rural financial landscape.

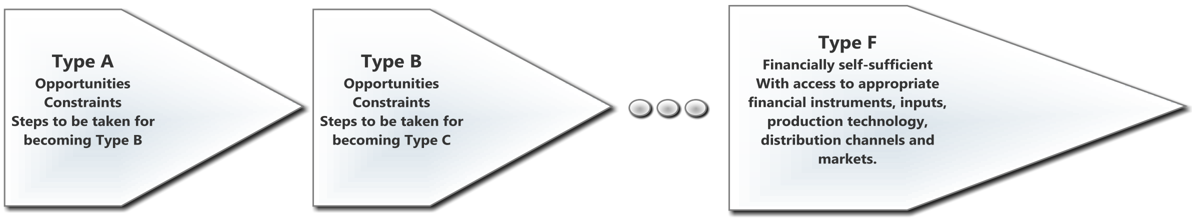
117. **Analysis** of the data collected will derive a 'matchmaking matrix' - defining which types of lenders are appropriate for which types of borrowers. The data will also be used to develop a set of clear questions that, when answered by potential borrowers, will allow the project teams or other financial advisors to be able to quickly identify in which type they belong and hence which are the likely FIs that they are best to approach for finance. With this 'matchmaking matrix' tool the project teams will be able to easily channel inbound requests to suitable financiers. The mentioned grid will look like the table below:

Figure 19: Illustrative 'financial 'matchmaking matrix' tool to be developed by the project

Financial Institution	Types of borrower / client				
	A	B	C	D	E
Bank (per bank)				X	X
DFI			X	X	
MFI		X	X		
SCG	X				
Family and friends	X				
Other					

118. The analysis will conclude by defining a financial graduation roadmap that will describe the steps required for each type of borrower/client to advance to the next level of development, until full financial graduation has been attained. Full financial graduation occurs when the borrower/client is self-sufficient in accessing appropriate financial instruments to purchase inputs, support production process, and secure distribution channels and markets.

Figure 20: Financial Graduation Roadmap



ii. Savings and Credit Group (SCG) Database

119. Similarly, FINCLUDE will establish a comprehensive record of all SCGs (registered and unregistered). This task has proven difficult in the past.

120. SCGs are formed and operate under the auspices of projects run by NGOs (there are about 10 NGOs promoting SCGs with ACAT and World Vision leading the market) and MoTAD is also supporting them with capacity development. SCGs and NGOs are usually reluctant to share information fearing they may be pushed to be formalised and bear the ensuing cost.

121. The project will approach data collection anonymously and the records kept will not name the SCGs. The project will seek cooperation from MoTAD and World Vision[151] and will engage them in the clusters. The project will offer technical capacity (when necessary) and in return will be receiving data on SCGs.

122. The resulting database will inform on SCG's location, type (rotating, accumulating), no of members, size and frequency of member contributions, capital and lending portfolio, size duration,

[151] Initial deliberations with MoTAD and World Vision indicate that FINCLUDE will be able to tap on their respective networks and expertise in engaging and promoting SCGs as financing instruments for the project's beneficiaries.

type and cost of loans, repayment rate, book-keeping methods, training offered and interest in becoming formal.

123. The database will be updated twice a year and data will reveal the untapped potential within the sector, giving to the project grounds on devising ways on how to channel this potential to become productive. Currently SCGs overlap both geographically and functionally as they are formed to facilitate project specific agendas.

124. Over time, this function should be institutionalized either within an SCGs apex organization, if existing, or CFI. An example of data that would be valuable to track can be seen in the SAVIX (http://www.thesavix.org/), which is a reporting system that provides standardised reports on SCGs programmes worldwide.

125. The database will have a twofold function: a) it will permit CFI to streamline future SCG related donor interventions so as to avoid duplication and redundancy and b) it will allow poorest segments of the beneficiary structure to tap on unutilized liquidity of SCGs for loan sizes of SZL500-5,000.

iii. Credit history of beneficiaries

126. FINCLUDE will establish an active database, i.e. a Credit History Tool, accessible to participating financial institutions, through which it will monitor repayment schedules of each and every FINCLUDE beneficiary and the performance of all loans facilitated by the project.

127. If this credit history tool proves useful to the project and its partner financial institutions, and there is demand from these partners to extend it to cover other parts of the sector, then FINCLUDE will assist the MoF and financial services sector to scale it up to become a formal Credit Registry.

B. Partnerships with FIs to increase loan supply and improve the savings culture

128. FINCLUDE is addressing directly the issue of limited options for the rural micro-entrepreneurs to access credit and focusses on increasing the supply of finance for investments in agriculture or other off farm activities in the rural areas.

129. Rural micro-entrepreneurs are looking for investments in the range of SZL5,000 to 20,000, while poorer smallholders may initially need micro-loans in the vicinity of SZL500 to 5,000. Rural SMEs require financing larger than SZL100,000 and up to SZL1,000,000. FINCLUDE facilitates access to financial services for all three categories and especially the smallholders and rural micro-entrepreneurs who are very poorly served at present.

130. Financial institutions fall into three tiers in terms of loan supply: Banks and DFI serving the large customers, MFIs providing small loans and Savings and Credit Groups providing micro-loans. The constraints and solutions from FINCLUDE for each tier are summarized in Table 17 below.

Table 17: Loan supply constraints and solutions

Current RF offerings	Constraints/Opportunities	Target Market	Solutions
Banks and DFI offer loans minimum SZL100,000	Small loan sizes lead to higher transaction costs. Lack of professional business approach to investments by smallholders and MSMEs. Security/collateral constraints as most production is on Swazi National Land. Uncomfortable investing in untested value chains, with untested stakeholders. Banks fully support and endorse	Smallholders and MSMEs in need for investment capital starting from SZL 5,000+	Cluster beneficiaries with similar interests and approach the banks with higher volumes. The banks can then decide on group or individual loans. The credit guarantee scheme will give an incentive for the banks to engage. In the long term, banks are expected to get comfortable with rural value propositions other than the sugarcane industry. Technical support can also be provided to strengthen their capacity to assess

Current RF offerings	Constraints/Opportunities	Target Market	Solutions
	FINCLUDE's approach.		VCs and develop new products and delivery modalities.
MFI	Only one MFI currently operating so coverage is incomplete. The MFI expressed interest in partnering with the project.	Loans sizes of SZL500-5000	Partner with the existing MFI in clusters where they are operating. Feasibility study for the setup of a new market-driven MFI. Wholesale credit guarantee for on-lending will increase lending capital available for the MFI if required.
SCGs	High levels of liquidity within many individual SCGs due to low uptake of loans.	Loan sizes of <SZL3000	Support for the strengthening of an apex mechanism that will be able to improve SCG liquidity management. Partner with MoTAD and World Vision to involve existing SCGs in FINCLUDE and create new ones, as necessary.
YEF	YEF was dormant for the past three years. Since August 2017 it operates under a new management structure and with a new promising business plan.	Loan sizes <SZL 50,000 for youth	FINCLUDE will collaborate with YEF as they both target youth. It will offer capacity building through the cluster mechanism and will benefit from the preferential credit offering of YEF.
Mobile money	Increasingly widely used for financial transactions but no credit products yet.	All	Work with Mobile Money service providers to: to make services, including remittances, more accessible to the target group, leveraging the mobile money payment system. reduce transaction costs of bank transactions and by extension interest rates to beneficiaries. introduce new mobile money-based products (cross border transactions, savings and credit offerings, etc.).
Savings	35% of adults in Swaziland do not save. Only 30% of adults are saving at the bank, but don't use the bank.	All	Develop a mandatory savings culture among beneficiaries. Support FIs to develop savings products for the beneficiaries.

131. FINCLUDE's strategy and actions embrace all target segments. FINCLUDE is trying to make available to the target group the largest amounts of credit existing in the Swazi market i.e. those of the banks and therefore focuses on the partnership with the banks. It offers the FIRM as an entry point for the banks but envisions to address the information divide in the sector.

132. FINCLUDE will also undertake a full feasibility study for establishing a new market-driven MFI and will support the development of one or more SCG apex organizations. Should these two offshoots mature to become fully operational, FINCLUDE will have a toolbox for all three tiers of the rural target market summarized in Table 17.

133. Moreover, FINCLUDE will engage with the mobile money network operators to take stock on the achievements of its predecessor RFEDP. It will continue supporting the operators and will liaise between them and the regulatory authorities to promote the development of a full range of banking products for the unbanked and reduce transaction costs of formal financial institutions thus giving them the opportunity to offer lower interest rates to the target group.

134. Finally, FINCLUDE will promote savings to have a central role in its strategy and especially for the lower tiers of its target group. Cluster members will be strongly encouraged and supported to save in partner banks (as a precondition for participating in cluster's activities) or in existing/new SCGs[152]. The banks will also be supported to develop relevant savings products if needed.

Banks

135. Banks are the major players in the market. Yet banks are not willing to spend time and money assessing risk of loans of small sizes needed by small farmers and micro-entrepreneurs. It is too costly for them. Furthermore, they are not willing to engage with untested value chains and untested stakeholders who cannot even meet collateral requirements. Despite this, there are few credible alternatives to working with the banks if FINCLUDE wants to substantially increase rural loan supply, especially given that there is currently only one active MFI.

136. FINCLUDE proposes a pathway to circumvent the bank's current constraints in extending financing to rural entrepreneurs and smallholder farmers. FINCLUDE will:

(a) cluster beneficiaries with similar investment plans and will empower them until they can forward a common loan application (or a bundle of highly similar small applications). An application of a group of ten (for example) beneficiaries can then add up to a size that makes it worthwhile for a bank to become involved.

(b) offer the project's credibility and collective skills to cater for the banks' inherent uncertainty towards unfamiliar businesses and entrepreneurs, including pre-screening investment opportunities, building business skills of farmers/micro-entrepreneurs and providing non-financial support in and around the cluster including linkages to buyers and technical services and suppliers.

(c) introduce a Financial Instrument for Risk Management (FIRM) as an incentive for the banks to engage with reduced collateral expectations. In the longer-term, banks are expected to gain experience in assessing risk of rural investments – other than the sugarcane industry – and start offering relevant products without FINCLUDE's intervention.

(d) support partner banks to enter and expand outreach in rural areas through innovative financial products, services, and delivery mechanism for smallholders and rural MSEs.

MFIs

137. With just one well-functioning MFI operating, FINCLUDE will support the MFI sector through two mechanisms:

(a) inviting the existing MFI (Inhlanyelo Fund) to participate in cluster meetings and cluster development processes; and

(b) conduct a feasibility study on the establishment of a new market-driven MFI to deepen the MFI sector and expand coverage.

138. **MFI establishment feasibility study.** Having additional depth to the MFI sector is highly desirable, especially for the provisions of micro-loans (between SZL500 and SZL20,000) to the lower-income strata. However, the creation of a new market-based MFI is a substantial and complicated undertaking, needing 7-10 years and thus beyond the scope of FINCLUDE to lead such a process.

139. FINCLUDE will therefore support a full feasibility study on the establishment of a market-driven MFI, as there is clearly a gap in the market and a need for more players in the lower end of the market. This study will provide the mechanisms to facilitate more in-depth discussions among different players - including the existing banks and Inhlanyelo MFI - to assess their interest/resistance to a new

[152] Mandatory savings, goal specific savings and individual non-withdrawal accounts.

market-driven player in the smaller end of the market. It would also investigate the feasibility of different scenarios for mobilizing both the market-driven management expertise as well as necessary funding. Scenarios to be investigated would range from fully private-led to public-private partnership (PPP) models. For example, one such PPP scenario could involve some of the existing banks/ Inhlanyelo contributing management expertise and some capital and the government also contributing substantial lending capital sourced from its dormant funds (e.g. the poverty reduction or youth development funds).

140. The feasibility study will be completed in Year 2 and coordinated by CFI, with external technical assistance as needed, and is a strong fit with CFI's core mandate - as a broker/deal maker to help transform the sector for the better.

Savings and Credit Groups (SCGs)

141. FINCLUDE will also engage with the SCGs. It will not necessarily create new ones but will assist in streamlining the function of the existing ones. It will start (as mentioned earlier) with cataloguing SCGs. It will then partner with SASCCO, MoTAD and World Vision to examine ways through which untapped liquidity among SCGs can be pooled and channelled to the rural target group. As a part of smallholders' demand for micro loans falling within the SZL 500-5,000 range (difficult to be satisfied by banks), SCGs can help cluster members to save up the required resources for their initial investment.

142. In an initial agreement, SASCCO (the apex organization of SACCOs) agreed to identify and strengthen a number of rural SCGs (at least 20 per year), to improve their capacity and extend loans to farmers in project clusters. Furthermore, World Vision initially agreed to partner with the project, benefit from the cluster capacity building activities and promote some of its SCGs to reach the formal financial sector. Moreover, these SCGs will be part of the beneficiaries' credit sources. Finally, MoTAD will partner with FINCLUDE and among other things will assist in streamlining the operation of SCGs at chiefdom and Tinkhundla level.

Mobile Money and remittances

143. RFEDP initiated cooperation with MTN (the mobile network provider) since 2011, to expand the use of mobile money in the rural areas. Mobile money is now extensively used for transaction payments throughout the country. Mobile money offers financial services over mobile phones, from simple person-to-person transfers to more complex banking services.

144. FINCLUDE's aim will be to a) use mobile money to reduce transaction cost for the banks and, by extension, lower interest rates charged to beneficiaries, and b) introduce mobile money credit related products.

145. Given the thrust the mobile money has taken, FINCLUDE will assist the mobile operators in diversifying their mobile payment system with offerings targeted to support the rural entrepreneurs. The mobile operators will then benefit from further expanding their relevant market share and increasing the transaction volume per customer. Special attention will be given to cross-border transactions and the facilitation of remittances through mobile money.

C. Financial Instrument for Risk Management

146. FIRM is an instrument that will guarantee banks against loan defaults with the aim to reduce/ replace collateral. The introduction of the FIRM will provide the necessary security to the banks so that they can extend farmer loans thus: a) improving financial inclusion of the target groups and access to a wide variety of financial services; b) encouraging the banks to forge stronger links with the rural sector and increase their capacity to identify and properly assess the credit risks linked to rural businesses; and c) eventually tailoring new financial products and services for the rural communities, including investment and working capital loans, product financing, receivables financing, insurance, etc. In addition, the Wholesale Guarantee window within the FIRM is expected to improve MFIs' access to wholesale funding for on-lending.

147. The FIRM will be entrusted to the Central Bank of Swaziland (CBS) who is already the custodian of the existing SME guarantee scheme (SSELGS) and has relevant experience. The CBS has an established working guarantee apparatus operating for the last 25 years and more. CBS has two full time staff dedicated for this operation and SSELGS is opened only to the banks. SSELGS is guaranteeing primarily individual loans extended by the banks to SMEs as defined by the SME Policy (policy issued in 2005 and currently in the process of being revised), criteria defining SMEs are: (i) small enterprises - from 10 to 20 employees, total assets valued between SZL50,000 and SZL2 million and turnover below SZL3 million, and (ii) medium enterprises - up to 60 employees, total assets valued between SZL2 million and SZL5 million and turnover below SZL 8 million. Both the small and medium enterprises have to be formally registered. Participation agreements are signed between the banks and SSELGS, and are to be renewed on a yearly basis.

148. All banks operating in the rural areas as well as the Swaziland Bankers Association expressed strong commitment, including at the CEO level of the five main commercial banks, to the FIRM and the projects objectives. Some even proposed to leverage additional own CSR funds to be channelled through the project for the benefit of the target group.

149. The new FIRM will:

(a) operate under the strategic direction of a Steering Committee (comprised by the CBS Board, the CFI, the Association of Banks and an MFI). The Board’s role would be to focus on policy issues, strategy and overall promotion of the guarantee scheme to the financial institutions;

(b) be operated by the same department in the CBS as the SSEGLS, with additional staff provided by the CBS itself if deemed necessary;

(c) offer three types of guarantees:

  (i) portfolio;

  (ii) individual; and

  (iii) wholesale for on-lending;

(d) adopt simpler and less costly operational processes – especially in the claims procedure. It is noted that the cumbersome, slow and costly claim process of the current SSELGS is a significant factor in its sluggish performance;

(e) be audited yearly and monitored by the online credit history database set-up by FINCLUDE;

(f) entrusted with USD1 million and an additional USD0.5 million if it reaches trigger performance by the third year of its operation;

(g) be expected to leverage between 8 and 10 times its value in loans;

(h) be open to the banks and other credit institutions operating under the Financial Services Regulatory Authority (FSRA);

(i) give direct priority to FINCLUDE beneficiaries and, if funds remain available and provided Steering Committee and IFAD agreement, FIRM will guarantee non-project-specific rural investments;

(j) release guarantees in portions so as to allow space for careful monitoring of its performance and for corrective actions, whenever its Steering Committee deems necessary;

(k) all loans issued under FIRM will be considered development financing (not retail) so as to avoid unnecessary additional taxation.

150. The sustainability of the FIRM will be achieved by accumulated income deriving from: a) fees paid by financial institutions participating in the scheme; and, b) income from investment of the FIRM's proceeds into fully secured financial instruments. Accumulated income would cover the scheme's operating costs and eventually recapitalise the FIRM.

151. FIRM support should be temporary. Once rural micro-entrepreneurs or smallholders have dully repaid their loans, they should have already developed sufficient positive credit histories to be offered loans on business terms without additional guarantees.

152. With a stipulated leverage ratio of 5-10 times, it is expected that the USD1.5 million will raise up to USD25 million of loans to the target group during the life of the project, and an ongoing stream of at least USD5 million per year thereafter. If by the third year FIRM is operating at full capacity with the USD1 million (i.e. 10 times leverage, average NPLs less than 7%), FIRM will be topped-up with a second tranche of USD0.5 million. The projection of loans is expected to follow the subsequent yearly disbursement trend (Figure 21).

153. **Portfolio guarantees:** 70% of the FIRM will be offered as a portfolio guarantee to selected financial institutions under the following criteria: a) experience in rural financing; b) leverage; c) interest rates; d) rural finance specific products; e) portfolio quality and past performance.

154. Portfolio guarantees will cover 80% of individual loans up to a cap of 7% on the total portfolio guaranteed. Portfolio guarantees will target beneficiaries requesting loans between SZL5,000 (individually) and SZL200,000 (individually or as a group). Eligible investments will be those in agriculture, agribusiness, or non-farm rural (MSME's with 1-10 employees, less than SZL50,000 in assets and turnover smaller than SZ60,000 a year).

155. Financial institutions will be given a quota, to be renegotiated yearly upon performance. Each financial institution will be secured for loans issued under a guarantee until their maturity. If repayment schedules are delayed, the financial institution should inform the CBS and the project so as to initiate corrective action. Loans issued under this facility are expected to be of two years maximum maturity, though this may be reviewed by the FIRM's Steering Committee from time to time. The CBS will charge a management fee of 0.7% of the value of every loan issued under FIRM.

156. Claims process will be streamlined. Loans with repayments delayed for more than 90 days will be considered non-performing and the financial institution will be entitled to claim repayment from the FIRM. The claim should be made within 30 days starting from the date a loan has been declared non-performing and provided the financial institution has started litigation against the client. Within 5 days the CBS and the project have the right to assess if the loan was eligible, due diligence performed and relevant fees were paid. If the financial institution does not receive an objection within 5 days, it is entitled to be repaid.

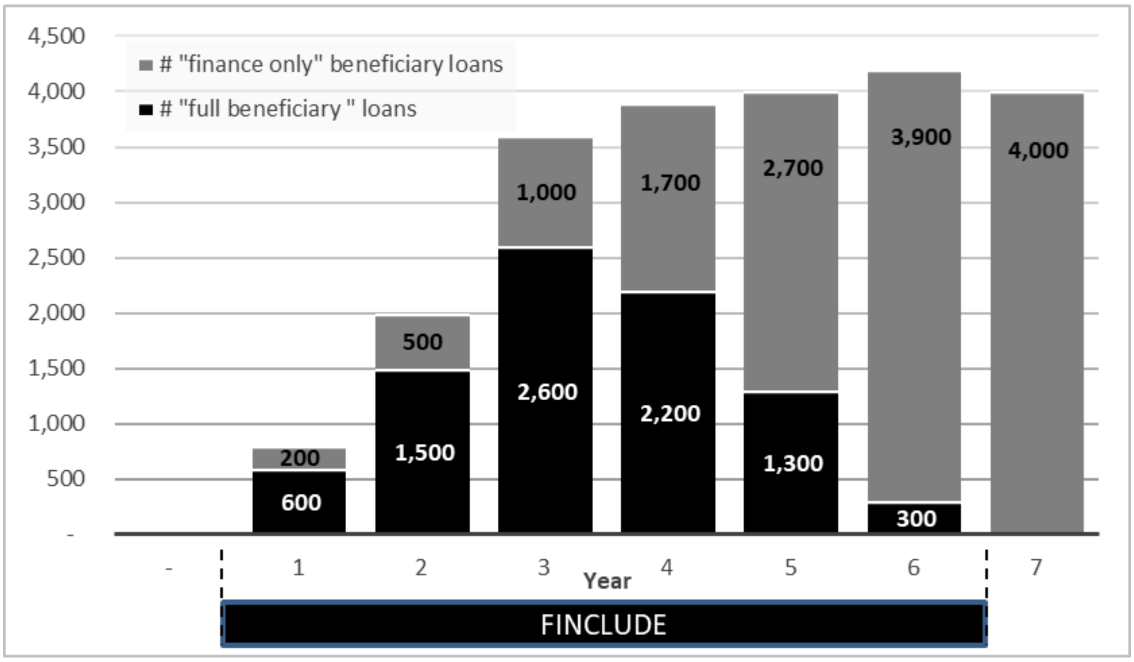
157. Importantly, the existence and use of the guarantee should never be revealed to the borrowers to avoid decrease in repayment performance. This will be considered a breach of the guarantee conditions and invalidate the guarantee.

158. **Individual or wholesale guarantees.** The remaining 30% of the FIRM will be offered as individual or wholesale guarantees.

159. Individual guarantees will be offered for longer-term investments (5 to 10 years) of larger size and will be decided by a Committee comprising members of CBS, the project and the issuing financial institution. It will be issued for loans for investments on rural infrastructure or other strategic investments. The guarantee fees to be charged will be 1% in this case. The coverage will be for 60% and the cap of 7% limit on the overall guaranteed portfolio will remain. The claim procedure will be similar as with the portfolio guarantees.

160. Wholesale guarantees will be offered for banks to lend to other financial institutions for on-lending. As with the individual guarantees, wholesale guarantees will also be decided by the Committee, the fees will be 1% and the coverage 60% with a 7% cap.

Figure 21: Yearly loans disbursements guaranteed by the FIRM



D. Capacity Enhancement and Policy Development Facility (CEPD)

161. FINCLUDE will provide for a facility for capacity enhancement across all its activities pertaining to financial inclusion, including remittances. The project will be able to use this facility for any relevant technical support during implementation, including the following:

(a) assistance for the setup and operation of the FIRM;

(b) capacity enhancement for FIRM management, monitoring and audit;

(c) capacity development for financial intermediaries on rural MSME and smallholder lending, including consideration of climate change on financial risks and mitigation;

(d) development of specific value chain financing and risk assessment manuals;

(e) policy support for the establishment of a 'small claims' judicial/extrajudicial process to speed up and make less expensive litigations in case of non-repayment for loans below SZL300.000;

(f) capacity for the design of new financial products more suitable to the needs of the rural MSMEs and the smallholders, including micro-insurance;

(g) assistance for the development and operation of the MFI, or the SCG Apexes, etc.

162. The CFI will prepare a semi-annual plan for activities under the CEPD (to be discussed on supervision and support missions). For extemporaneous CEPD activities of more than USD40,000, the CFI will forward relevant proposals to IFAD for no objection.

E. Remittances

163. In relation to the data collection effort aiming to feed the financial demand and supply database, the project will launch, at project inception, a survey on the remittance industry sector that will address demand side and supply side aspects and will derive market-driven options and policy reforms to improve the use of remittances and their role on financial inclusion. This survey will eventually be bundled with the FinScope consumer survey update. In addition to providing a diagnostic of the remittance industry and highlight market opportunities, the survey will to provide a segmentation of migrant households pertaining to FINCLUDE targeting. This knowledge will nurture the financial

education and social mobilization activities availed in component 1 activities and will support the pilot testing of products linked to remittance with a particular attention given to the extension of the scope of services delivered and to the rural outreach of the partnering FSPs.

Component III: Climate Resilient Decision Making and Investment

Component 3: Climate Resilient Decision Making and Investment

164. The activities in this component, for which funding will be sought from a climate financier, are intended to enhance the overall climate resilience impact of FINCLUDE. The activities are tightly linked to the activities in the other two components and should be implemented as one. Contingent on the climate funding, a climate activities coordinator will be recruited into the PMU to ensure this integration is effective.

165. With the general mindset of bringing climate finance to the end-users (making climate finance part of financial inclusion), the climate resilience approach taken in this project is: (i) *user-centric and pragmatic*, taking the key actors and their direct needs as a starting point; (ii) *targeted* at key decision points that have maximum leverage; and (iii) *simple and straightforward* so that climate change can become a practical consideration for those who need to deal with it on the ground, rather than a doom and gloom scenario.

166. It will be important to keep these principles in mind when implementing the various activities, to ensure focus and efficiency. Furthermore, it will be important to avoid fatigue and paying lip service when it comes to the use of “climate resilience”. It should be acknowledged that many of the activities in this project that are primarily aimed at increasing income, also contribute to climate resilience. The activities in this component are those that add extra focus on climate resilience when it comes to improving or introducing new processes, as well as providing resources for some more capital-intensive investments. Some of the most powerful interventions in terms of climate resilience may however be in terms of the target beneficiaries understanding what climate change really means for them, and how they can incorporate it into their daily business operations.

3a) Climate information services

167. The intended outcome of this set of activities is that producers, traders and bankers use climate information to manage their business.

168. Emerging from a traditional and technical discipline, climate information products and most notably weather forecasts in Swaziland have had limited impact on rural Swazi producers and on the financial system. FINCLUDE will transform this to a practice of user-driven climate information *services*, starting from a thorough assessment of users’ climate information needs. Starting from the *needs* and working back towards what type of services are needed, and what kind of investment in equipment / modelling / human expertise, is essential to ensure that end-users will benefit.

169. The climate information user needs assessment will be carried out with the help of an external consultant (most likely international), for which draft TORs will be provided which should be finalized in collaboration with the key stakeholders involved (Swaziland Meteorological Services/Ministry of Environment, Ministry of Agriculture, a representative from the financial sector with affinity in risk assessment). When finalizing the TORs and selecting the consultant, it will be important for the consultant (firm) to have experience in the financial aspect as well, beyond regular agro-meteorological services.

170. Based on the outcome of the user needs assessment, a strategy for climate information services will be developed. Such services will consist of the appropriate dissemination method (e.g. radio, mobile on-demand, internet, network of informants), content (e.g. agro-meteorological bulletins), format and timing; and suiting various user needs (e.g. information on best planting time, early warning for drought or frost). For bankers, the focus of the services will be more on long-term climate trends and how they translate into risks for enterprises. The strategy should be in the form of a

short document containing a summary of the user needs; a typology of services to be delivered, including format, frequency, responsibilities, and training materials appended; and a roadmap outlining the different investments needed to deliver those services (activities, costs, timeline, responsibility).

171. Financial sustainability of service provision needs to be a fundamental aspect of the strategy. For each of the services identified, a basic analysis of costs (both upfront investment as well as running costs) needs to made against an estimate of benefits (monetary and non-monetary). While much of the investments needed will be public investments, some of the services may offer opportunity for revenue-creation that could at least cover the running costs, for instance through a freemium model (user pays for higher-accuracy or tailored data provision).

172. The strategy should be validated in a multi-stakeholder meeting, including prioritization of activities to match the availability of funds. While FINCLUDE has a provision for investing in underlying weather and climate data collection and processing needs, it should be noted that such investments can be sizeable and possibly beyond the FINCLUDE resources only. There are however many ongoing initiatives and potential sources of funding in this area, and the strategy should therefore also be a mechanism to leverage those other sources of funding and coordinate donor efforts.

173. Once the selected services are developed, the project will train the prospective users of climate information services, to help them in incorporate the information into their decision-making process.

174. For farmers / producers, this training will be based on the Participatory Integrated Climate Services for Agriculture (PICSA[153]) approach, see Box 1 below. This will include sessions on historical climatic trends and analysis of seasonal forecasts, its impacts on agricultural production, and alternative and innovative solutions to cope with current climate and weather conditions. To validate their choice of production, farmers will be supported to compare their chosen product to several appropriate alternative options (crops, livestock and other livelihoods) evaluated through a simple cost benefit analysis. The objective being that farmers make climate informed investment choices, factoring in 'no regret' adaptations into their investment plans.

[153] https://ccafs.cgiar.org/publications/participatory-integrated-climate-services-agriculture-picsa-field-manual#.WXOJYumQzIx

Box 1: The PICSA approach

The Participatory Integrated Climate Services for Agriculture (PICSA) approach, developed by the University of Reading and the CGIAR centres, is a methodology aimed at helping farmers to use climate information to manage their farms. It takes farmers through a number of steps in which they learn to estimate basic probabilities that affect their cropping strategy (such as length of the rainy season). The idea is to use local historical data as a starting point, and then move into what impacts climate change will have. At the end of the session, farmers will be able to revise their cropping strategy according to the insights gained.

Below are the proposed modules that will be included, informed by the PICSA training:

Step 1: What does the farmer currently do?

Step 2: Is the climate changing?

Step 3: What are the opportunities and risks?

Step 4: What are the alternative options for the farmer other than their chosen product?

Step 5: What 'no regrets' adaptation options are there for their chosen product and what are the costs and benefits?

Step 6: Localized seasonal forecast

Step 7: Short-terms forecasts and warnings

Step 8: Learn from experience and improve process

175. Critical points of attention for the PMU will be to ensure that the PICSA approach is implemented in a way that links to the overall finance angle of this project (i.e. in step 5, ensure that financing is discussed as part of the cost-benefit analysis, and possibly include loan officers in this part of the discussion); and that more than a one-off training, climate (and weather) information becomes a core element of the farmers' decision-making business as usual. In step 6 and 7 notably, this would include presenting the newly developed climate services to the farmers and teaching them how to use these on a regular basis, i.e. consulting the seasonal forecast to decide which crops to grow and when to plant.

176. The training of staff from financial institutions will be of a slightly different nature and should be further detailed as part of the services strategy. It will include a summary of the training provided to the farmers and producers, for loan officers to understand the risks involved in agriculture and how producers handle those risks. Building on that, it will give an overview of climate risks to the portfolio and how climate information can be used in assessing these risks, as well as provide practical tools for assessing financing proposals.

177. The training should be delivered using a Training of Trainers methodology, providing initial training for all the Cluster Development Teams and officers and representative of Swaziland Meteorological Service, National Disaster Management Agency, local extension services and local institutions and farmers organisations. The first round of trainings should be on-the-job, so that the future trainers get a real experience in conducting such trainings. A consultant will be recruited to deliver the training, possibly two consultants if the required capacity for the producers/farmers on the one hand, and the staff of financial institutions on the other hand, cannot be sourced from one individual / firm.

3b) Climate Investment Facility

178. The purpose of the Climate Investment Facility is to leverage investments in climate resilience by producers, traders and government. The Facility will be anchored in the Cluster Development Process and will target both public as well as private investments.

179. Activities would be identified and prioritized through the cluster meetings. This would include climate resilient infrastructure such as water storage, water-efficient irrigation, post-harvest structures;

R&D on climate resilient varieties and technologies; and pilot circular economy enterprises that contribute to climate resilient landscapes.

180. The Climate Investment Facility will be delivered in tandem with the Sector Development Facility described in Component 1. Public climate investments will be awarded to proposals that effectively integrate climate change adaptation and leverage other funding sources (this could be core public funds such as the RDF, other donor-funded projects or private investment). An initial financing leverage target ratio of 1:1 across the portfolio will be used and may be adjusted upward or downward based on experience with the first batch of proposals.

181. Support to private investments linked to clusters will be to support the first movers or early adopters of climate-smart technologies and practices. Initially, this will be in the form of (i) training on climate-smart agricultural practices; (ii) provide seed financing to pilot climate risk-reducing and/or adaptive measures with potential for scaling-up; (iii) learning visits on climate smart practices. As the project progresses and the various activities under this project such as climate-informed decision-making gain traction, a diversification of financial instruments will be considered. This could be in the form of equity, debt or risk-based instruments such as a climate-specific credit guarantee.

182. Detailed implementation guidelines for the Climate Investment Facility will be developed in conjunction with the Sector Development Facility guidelines as part of the PIM. The guidelines will contain the specific set of criteria for eligibility, guidance for Cluster facilitators, and some examples of best-practice investments that would be eligible.

183. Given the demand-driven nature of these investments, implementation will need to be flexible and responsive. There are a select number of partners in Swaziland that could deliver such service to the project and cover most of the likely activities, and a framework contract or MoU can be established with one of these partners to facilitate smooth implementation.

3c) Improving access to climate finance

184. The intended outcome of this set of activities is to enable long-term access to climate finance for Swazi organisations.

185. Currently, Swaziland is not yet tapping into the quickly growing pool of climate finance resources available internationally. These include not only the large donor funds such as the Green Climate Fund and older environment-related financing mechanisms such as REDD (+), but also other (institutional) investors which are looking to invest in sustainability and climate adaptation. The objective is thus to make the relevant Swazi organisation to become aware of the opportunities out there, to understand what would work best in the Swazi context and for the specific purposes that financing will be sought for, in order to kick start the flow of climate finance into the country.

186. In the first year, the project will organize a Climate Finance Fair. This 2-day event will bring various stakeholders in the climate financing arena to Swaziland to discuss international best practices and identify the most promising pathways in the Swazi context. The focus of the Fair will be on innovative ways to bring climate finance to private end users without disturbing local financial markets (“blended finance”). The fair will include both interactive presentations on the lessons learned from other countries, as well as facilitated working sessions to develop project ideas for Swaziland. It will also include matchmaking sessions with climate financiers. Furthermore, it will address issues related to accreditation of financial institutions including environment, social and governance (ESG) best practice and tools for implementation.

187. International best practices to be explored during the Climate Finance Fair include public-private partnerships, innovative financial structures where climate funds can absorb specific risks through junior shares, and bundled instruments where climate finance can be used for technical assistance facilities. Practitioners with experience running such schemes will be invited to give first-hand experiences.

188. It will be important to ensure that the Fair will not go into more traditional development financing strategies linked to climate change such as public-sector irrigation projects or natural resources management projects, but rather position it at the edge of what is currently happening in Swaziland and what is happening elsewhere in the world in terms of private-sector driven development linked to climate change adaptation.

189. Using the inputs from the Fair, the project will facilitate the development of a climate finance strategy, containing a roadmap for climate finance including targets for external resource mobilization and domestic climate financing as well as a shortlist of flagship projects to be developed. This Climate Finance Strategy should be well-aligned with the Financial Inclusion strategy already developed by CFI, while bringing on board specific actors in the climate arena who are normally less involved with financing. Therefore, the strategy will be drafted and validated through a working group of national stakeholders on climate financing convened for this purpose. The Climate Finance Strategy will also include a methodology for tracking climate finance and propose a coordination mechanism for doing so.

190. The project will recruit a consultant to assist in both the organization of the Fair as well as the drafting of the climate finance strategy. It will be important to recruit a competent consultant / service provider for this task with experience in managing multi-stakeholder processes and in-depth knowledge of climate financing.

Appendix 5: Institutional aspects and implementation arrangements

A. Context

1. The starting point to the implementation arrangements is that CFI has demonstrated effective project leadership and management at the overall project level for the previous RFEDP, including sound financial management and has built a high quality but small team. CFI also has the mandate and capacity to lead the delivery of all activities related to Component 2. At the same time, CFI has limited experience of inclusive economic cluster development. The economic development aspects of RFEDP delivered less visible results and elements of M&E, targeting and procurement would need to be strengthened.

2. For implementation of the inclusive cluster development approach under Component 1, an overriding consideration is that critical elements of the FINCLUDE approach are substantively different from agriculture development practices widely practiced in the country to date. To date the design team has identified only a very small number of organizations that are applying similar thinking in practices:

- one private organization already successfully implementing a substantively similar approach over the past 7 years in at least three different commodities (poultry (broilers), vegetables, honey) (Africa Works);
- at least two financial institutions adopting very similar thinking and approaches but from a financing perspective (Swazibank, Inhlanyelo Fund);
- one farmers organization that has recently initiated some similar pilot cluster development activities in pigs and vegetables but as yet still has very limited experience and capacity (SNAU).

3. Notwithstanding the achievements in the structured sugarcane sector, the design team has not found evidence that any of the state enterprises (SEDCO, SWADE, NAMBoard, etc.) are successfully applying comparable inclusive cluster development approaches in other commodities.

4. It is also observed that there are many actors in the agricultural sector, with differing skills, experience and approaches but there is a clear lack of coordination leading to a highly fragmented and disjointed development effort.

5. Given the above context, the following organization framework is proposed.

B. Organizational framework

6. Ministry of Finance will be the Executing Agency and the Centre for Financial Inclusion (CFI) will be assigned as the Lead Implementing Agency (LIA) on behalf of MoF and will house a PMU embedded into its existing structures.

7. CFI will establish and directly manage a team with a mix of its own staff, hired professional contract staff and assigned staff from interested partner organizations (public and private) under the direct management of CFI, with assigned staff returning to their parent organizations afterward with enhanced capacity and confidence in the FINCLUDE approach. This is the preferred arrangement in order to build permanent capacity in a wide base of organizations in the country.

8. Two alternative options were considered and rejected for the implementation arrangements for the project activities:

(a) Hire a fully dedicated contract team within the CFI to deliver Component 1 for the life of the project. This option provides the simplest management arrangements but risks leaving little wider institutional capacity beyond the CFI behind after the project.

(b) Delegate/sub-contract discreet components/sub-components of the project to selected public or private implementing agencies. This option is not considered feasible given the lack of capacity in the proposed approach.

9. Staff from at least four implementing partners are expected to be assigned by their respective organizations to work as an integrated part of the project teams at central and regional levels. These include staff from Ministry of Agriculture, Ministry of Tinkhundla Administration and Development (MoTAD), SNAU and SEDCO. These staff will be coached in how to lead inclusive cluster development and market linkage activities. It is expected that they will take increasing leading roles in coordinating the activities in the cluster in the latter half of the project, after MTR, as their skills and confidence matures.

10. The partner institutions that will assign staff to the project team, from the start of the project, for capacity building purposes include:

(a) Ministry of Agriculture (MoA)

(b) Swaziland National Agricultural Union (SNAU)

(c) Ministry of Tinkhundla Administration and Development (MoTAD)

(d) Small Enterprise Development Company (SEDCO)

11. For MoA, staff will be drawn from its emerging agribusiness unit and extension service teams. For MoTAD the partnership will primarily be with the Community Development teams at central, regional and Tinkhundla levels (who also have a primary role in assessing and supporting the community development funds such as the RDF and the Community Poverty Reduction Fund). For SEDCO, it is likely to be from their core team including business coaches and for SNAU it is also expected to be under the scope of their core team, including their capacity building mandate for farmers' organizations and the linkages with the markets.

12. In addition to the four named implementing partners, FINCLUDE will be open to other organisations from the private and public sectors to second their staff into the project to develop their capacities on a similar arrangement, for example from organizations such as Swaziland Farmers Cooperatives Union (SWAFCU), Junior Achievement (JA), Women Farmer Foundation (WFF) and Lulote (a private BDS provider, www.lulote.co.sz).

13. Staff assigned from the four core implementing partners should ideally be assigned for a minimum 24 months and preferably longer. For staff seconded from additional organisations the minimum secondment should be for a period of 12 months. Assigned staff will be paid a stipend by the project with their salary costs continued to be paid by their employer. In the case of SNAU, the project will in addition contribute towards the costs of the salary for the assigned staff.

14. It is recognized that some staff may only be able to work part time in the FINCLUDE team as they will continue to have other responsibilities. FINCLUDE will attempt to accommodate this to ensure capacity is broadly developed. In many cases, however, it is expected that FINCLUDE activities may actively facilitate their core roles, for example with the Community Development teams of MoTAD and the agribusiness and extension staff of MoA. The effectiveness of these arrangements will be monitored closely during the initial implementation and adjustments made to address any issues as they emerge.

15. In addition to the specific staff assigned to be part of the core project team, the wider staff of the implementing partners will be actively encouraged to participate in relevant project activities in their geographical or technical area of responsibility. For example:

(a) MoA technical and extension staff from among the 17 Rural Development Areas (RDAs) will be actively encouraged to participate in multi-stakeholder cluster meetings and follow-up activities in the area as service providers and key supports of agriculture in their area. Examples of other engagement include these staff being actively consulted and invited to contribute to the cluster mapping as well as providing backstopping to local technical services providers supported by FINCLUDE in their area. Similarly, Community Development.

(b) MoTAD Community Development staff in the regional and Tinkhundla Centres will similarly be invited to actively participate in the multi-stakeholder processes in their area, closely co-ordinate with activities with the FINCLUDE Cluster Development team in each of the regions and actively facilitate links between RDF, FINCLUDE and local leadership structures in the Chiefdoms and Tinkhundla.

(c) SEDCO business coaches and other staff will also be encouraged to participate in the cluster development activities in their local area as an important provider of business development and support services to MSME.

16. This active engagement from teams from a wider range of organizations in the cluster development process will facilitate a common understanding of the specific opportunities and local constraints in each cluster. This will then be the foundation for deeper harmonization and coordination of the various support services and funding that each partner can offer, of which the resources within FINCLUDE are just part. This provides a practical mechanism for each organization to maximize the impact from its resources, raising its own performance as well as that of the wider set of partners and reducing duplication. Such coordination and maximization of combined impact is increasingly important in the current constrained fiscal conditions in the country.

17. Implementation arrangements for Component 3, Climate Resilient Decision Making and Investment, will be further elaborated as part of the development of the climate finance design documents during 2018. Strategic partners for this component are expected to include the Ministry of Tourism and Environmental Affairs, including the Swaziland Meteorological Service, and the National Early Warning Unit under the Ministry of Agriculture.

18. Technical assistance is planned to be provided on several aspects including: cluster development, M&E system development; development and harmonization of the various databases and MIS systems; social mentoring; targeting; knowledge management and on activities under Component 2 particularly under the CEDP to be identified during implementation. These have been provided for in the project budgets.

19. For successful cluster development, it is vital to combine genuine business acumen in the Cluster Development team with the proven tools and techniques for cluster development, introduced via the TA. Accordingly:

(a) TA will be mobilized in a series of short inputs totalling approximately 12 person months delivered over the first 24-36 months with a strong focus on coaching and on-the-job support to the project teams and not as a substitute for the FINCLUDE team’s own capacity. This TA should be provided by an experienced manager with hands-on practical experience of implementing similar private-sector driven cluster development projects.

(b) Genuine business acumen is crucially important among the Cluster Coordinator and Senior Cluster Development Officer(s) with a proven track record and should be a critical characteristic sought during the recruitment process.

20. A Technical Working Group (TWG) on Climate Change will be established as a loosely structured reference group which will be regularly asked for a technical opinion on matters related to climate change. The group will comprise a mix of public and private actors. The TWG will meet occasionally and be invited to key events under Component 3, but moreover it will be asked to provide ad-hoc and non-binding advice on a regular but not necessarily structured basis. Apart from serving as guidance for the project, the TWG would offer an opportunity for various actors to showcase their knowledge and increase their chances of being contracted for the larger, time-consuming technical assistance opportunities arising from the project.

C. Project Management Unit

21. A PMU will be embedded within the existing structures of the CFI. PMU will be accountable for ensuring FINCLUDE achieves is Development Objectives and for oversight of all day to day operations of the project. The PMU will also be responsible for all reporting requirement of GoS and IFAD related to the project.

22. The project will be implemented through a decentralized structure with a small central team based in CFI and operational teams in each of the four region hubs. It is probable that the regional hub teams will be hosted, or with offices very near to, one of the main implementing partners in each region.

23. A FINCLUDE Senior Management Team will support the Project Director in the overall coordination and delivery of the project and be jointly accountable for its overall performance in addition to their technical areas of responsibility. The Senior Management Team will comprise: the CFI CEO will act the Project Director supported by a Project Manager, who will be one of the senior CFI core staff, and the contracted senior professionals as Coordinators and Deputy Coordinators for each of the three Components plus the Sociologist, CFI Finance Manager and Senior M&E KM expert for the project.

24. The regional hub teams will be responsible for the integrated delivery of activities across all three components in their region – covering cluster development, rural finance and climate investment. Thus, the Cluster Development Officers, Cluster Mobilizers and Social Mentor Supervisors will need to be familiar and trained on all aspects of the project. Technical and professional coaching and backstopping of the regional hub team will by via the relevant senior staff of the Senior Management team.

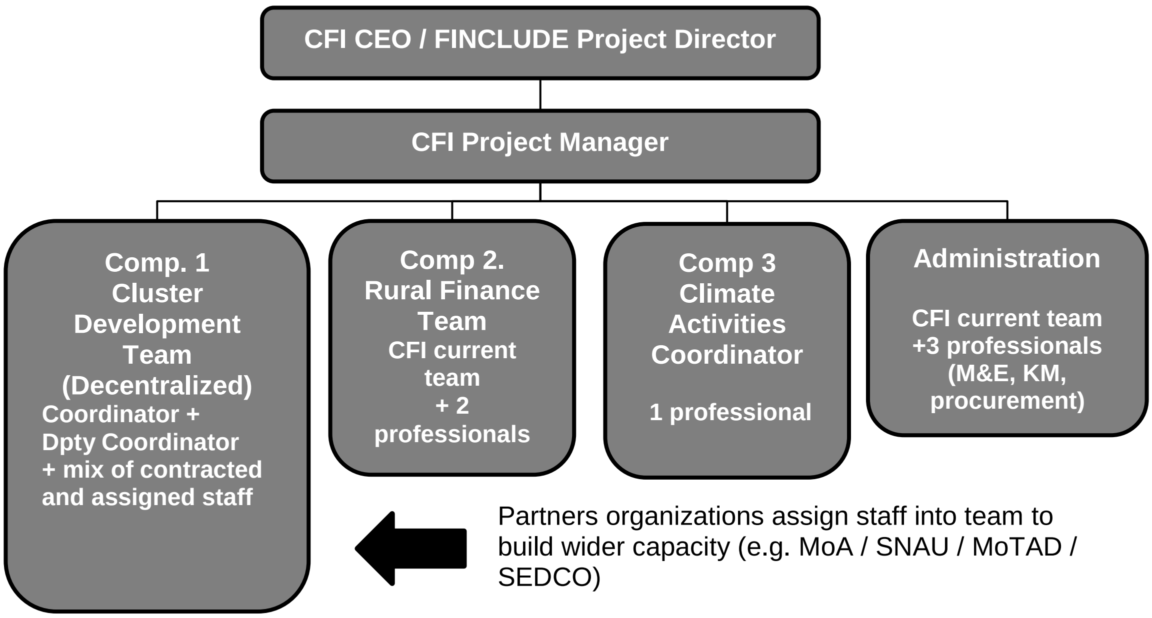
25. The Cluster Development Coordinator and Deputy Coordinator will each take lead responsibility for delivering the results agreed in 2-3 commodities, ensuring a co-ordinated and coherent set of activities and interventions across the programme in support of the particular commodity. At the hub level, the Cluster Development Teams will coordinate across all commodities active in their region.

26. The Cluster mobilization teams: The Cluster Mobilizers will work in a “buddy” system in pairs. Each pair of Cluster Mobilizers will be responsible for the mobilization and facilitation of 3-4 clusters within their assigned local area. Clusters Mobilizer may therefore be responsible for clusters for several different commodities. Cluster Mobilizers will be coached and supervised by Cluster Mobilization Supervisors who will report to the CDTL.

27. Staff of the Cluster Development team will be recruited from a range of backgrounds to ensure a breadth of suitable skills and experience in the team. For example, the team should include staff with backgrounds in: MSME finance/bank credit officers, business experience (e.g. sales or supply chain management), agribusiness, smallholder development, etc. However, their technical background is not as their important as their energy and general aptitude and energy, people skills and ability to network to identify solutions and opportunities.

28. A Climate Activities Coordinator will be recruited for the coordination of activities under Component 3, if climate financing becomes available. This professional may be recruited from the market or seconded from a partner institution, should the right profile be available.

Figure 22: PMU Team Structure



29. **Technical and business development services to MSMEs and farmers** should be primarily delivered by private service providers with costs paid by service users in order to move toward self-sufficiency within market-oriented clusters and commodity industries (i.e. not reliant on long term direct or indirect subsidies from the government or other sources). As such, the project teams do not include such service providers.

Time commitment of staff

30. The CFI assigned Project Director will be expected to work part-time on the FINCLUDE, as it will form part of his/her regular duties. The assigned CFI FINCLUDE Project Manager will be expected to work fulltime on the project. Other existing CFI staff assigned to the project will be expected to work approximately 70% of their time on the project.

31. All contracted post and technical advisors will be fulltime unless specifically stated otherwise. Contracted posts and technical advisors, including national and international, will be professionally competitively recruited on an individual basis.

32. **Secondment of staff from partner organizations** into the Cluster Development Team may be achieved in one of two ways:

(a) As fulltime members of the team – for example filling one or more of the posts of Cluster Development Officer / Cluster Mobilizer – depending on their initial skills and experience.

(b) As additional part-time members of the team, attached on a short or longer-term basis. In this case they would be additional to the staff posts listed in the table above but with similar duties.

Table 18: Project Staffing

Team	Position	Type[154]	Yr 1	2	3	4	5	6
Project management	Project Director / (CFI CEO)	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	Project Manager (CFI Snr Programme Officer, Financial Inclusion and Strategy)	CFI	1	1	1	1	1	1
Comp 1: Cluster Development Team	Cluster Development Coordinator	Contract	1	1	1	1	1	1
	Cluster Development Deputy Coordinator	Contract	1	1	1	1	1	1
	Cluster Development Officers	Contract	4	4	4	4	4	4
	Cluster Development Officers	SNAU	4	4	4	4	4	4
	Cluster Development Officers	Seconded - Gov	10	10	10	10	10	10
	Cluster Mobilization Supervisors	Contract	4	4	4	4	4	4
	Cluster Mobilizers	Contract	4	6	8	8	8	8
	Sociologist	Contract	1	1	1	1	1	1
	Social Mentor Supervisors	Contract	8	8	8	8	8	8
Comp 2: Rural Finance Team	Rural Finance Coordinator	Contract	1	1	1	1	1	1
	Rural Finance Deputy Coordinator	Contract	1	1	1	1	1	1
	Access to finance officer	CFI	0.7	0.7	0.7	0.7	0.7	0.7
Comp 3: Climate Activities	Climate Activities Coordinator	Contract	1	1	1	1	1	1
Knowledge & M&E	Research & Information Officer	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	Knowledge Management, M&E and Comms Specialist	Contract	1	1	1	1	1	1
	MIS specialist	Contract	1	1	1	1	1	1
Finance and administration	Chief Finance Officer	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	Finance & Admin. Officer	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	Procurement Officer[155]	Contract	1	1	1	1	1	1
	Executive Secretary	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	General Office Assistant	CFI	0.7	0.7	0.7	0.7	0.7	0.7
	Drivers	CFI	0.7	0.7	0.7	0.7	0.7	0.7

D. Detailed implementation arrangements for Component II: Expanding Supply of Rural Financial Services

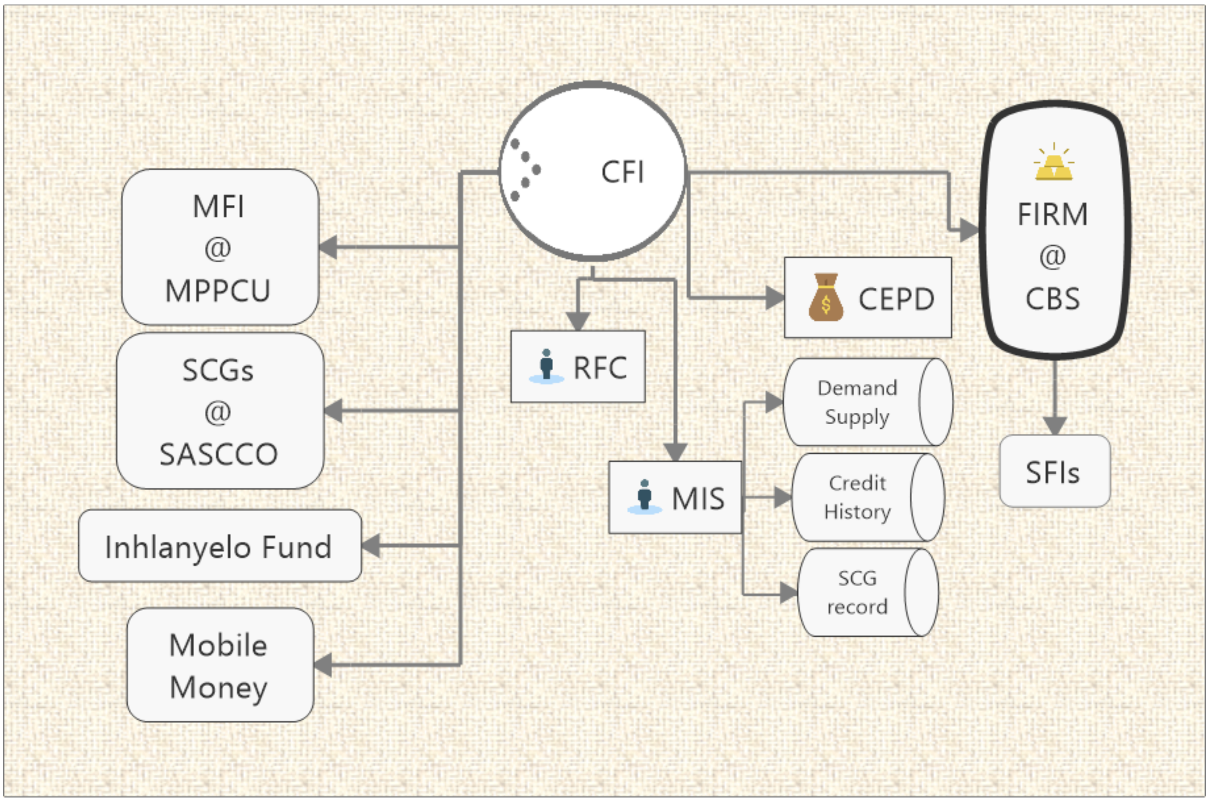
33. Through the RFEDP, the MFU became the key actor in promoting microfinance culture in the country and in bridging the gap between rural MSME's and financial institutions. After its transformation to CFI, it assumed an institutional role and function in the financial ecosystem. It is gradually becoming the information broker, between demand and supply of financial services for MSMEs in the country and the uncontested link between formal and informal institutions and the policy makers. The CFI inherited strategic and operational experience in running successfully an IFAD supported project and as such FINCLUDE can only entrust CFI for the efficient and effective management and coordination of its activities.

34. FINCLUDE will further strengthen CFI with a Rural Finance Coordinator (RFC); an Information and M&E Officer (MIS); and a Capacity Enhancement and Policy Development Facility (CEPD), to make sure it has all the necessary resources to effectively deliver its wider mandate alongside the required FINCLUDE deliverables: a) a successfully operating Financial Instrument for Risk Management (SGS); an operational, useful and updated Demand/Supply Database; a well functioning and updated credit monitoring system (Credit monitoring tool); an updated and useful record of the SCGs; a new, operational MFI under the MPPCU; tangible improvements in the SCG area through

[154]Post shown as "Contract" will be recruited as individuals unless stated otherwise.
[155] Procurement may be outsourced to MoF procurement team instead of recruiting dedicated officer to CFI

SASCCO; and improved Mobile Money services. CFI is expected to commit 70% of its current resources (staff, equipment, and logistics) to FINCLUDE.

Figure 23: Implementation Structure of Component 2



Deliverables

i. FINCLUDE Instrument for Risk Management (FIRM)

35. The FIRM is the building block upon which the project sits its financial component. It is therefore imperative that this is designed flawlessly and implemented seamlessly. Its establishment and finalization of specific details until it reaches full functioning operation is expected to stretch over a period of three to four months. It is therefore recommended that activities related to the FIRM start upon effectiveness, so that the financial sector is ready to extend loans when the clusters are likely to have developed their value propositions.

36. Activities related to the FIRM involve a series of preparations to be implemented by the CFI:

(a) finalizing legal issues;

(b) finalizing governance issues;

(c) finalizing operational issues;

(d) organizing outreach and communication activities to the financial sector;

(e) finalizing tendering procedures;

(f) selecting the financial institutions and quotas;

(g) defining the claims procedure;

(h) setting up the monitoring and reporting framework;

(i) organizing audits;

(j) evaluating the loan portfolios and apply corrective actions;

(k) assess whether trigger conditions have been met for the release of consecutive guarantee tranches;

(l) secure that loans issued under FIRM are to be considered development financing thus eliminating an additional tax that would otherwise burden the project borrowers;

(m) Initiate a policy dialogue for the development of a “small claims' judicial/extrajudicial process to speed up and make less expensive litigations in case of non-repayment for loans under SZL 300.000.

37. The CFI will start working on finalizing legal issues for the operation of the FIRM. That will include finalisation of the guarantee agreement to be signed with the banks (stand-by letter or institutional backing – not deposit). There should be specific agreements for portfolio, individual and wholesale guarantees. These agreements should specify:

(a) the amount of guarantee;

(b) the agreed maximum leverage x10 and the minimum x7;

(c) the 80% coverage (60% for individual and wholesale guarantees);

(d) the 7% cap;

(e) the 0.7% (1% in the case of individual and wholesale guarantees) management fee;

(f) the responsibility of the bank to prevent moral hazard (e.g. not disclosing the existence of guarantee to its clients);

(g) the eligibility criteria for issuing loans (Eligible investments will be those in agriculture, agribusiness, or non-farm rural MSME’s with 1-10 employees, less than SZL50,000 in assets, and turnover smaller than SZ60,000 a year);

(h) the quota (an envelope in the case of portfolio guarantee, an amount in the case of individual or wholesale guarantees);

(i) the minimum SZL5,000 (individually) and SZL200,000 (individually or as a group) loan amount allowed (to be individually negotiated with CFI and CBS for individual and wholesale agreements);

(j) the agreed interest rates (should reflect guarantee coverage);

(k) the maximum loan tenor (estimated at two years);

(l) the claims procedure;

(m) the reporting obligations (same as with what the credit officer reports to the bank);

(n) treatment of returning borrowers (the financial institution should explain the reason why it has to use a guarantee for returning borrowers with good track record).

38. There must be a clear definition of the three types of guarantees, understood by CFI, CBS and the selected FIs (SFIs) i.e.:

(a) portfolio guarantees: in this case, FIRM will provide guarantees to SFIs for lending to groups or potential borrowers under specific criteria - the relationship between the FIRM and the beneficiaries is therefore non-existent;

(b) individual guarantees: in this case an agreement is concluded between the FIRM and the SFI on a case by case basis; and

(c) wholesale guarantees: in this case, the loan is granted for an intermediary, either a financial institution or a producer organization, to on-lend, thus enabling the intermediary to manage a credit line on behalf of its customers or its members, according to the statute.

39. Operational issues that have to be resolved and agreed upon (in writing) between the CFI and the CBS include:

(a) transfer of funds to the CBS and financial management (USD1.5million will be allocated and should be yielding returns);

(b) staff that will be assigned and costing that will be charged for the operation of FIRM;

(c) clear and distinct communication and reporting procedures (CFI and CBS should have online access to information systems with updated data on loan performance;

(d) rights and responsibilities of CFI and CBS (equal rights on non-objection, CFI director can veto objections);

(e) tranches and launching schedule (there should be two launchings of USD500,000 each in year 1 and year 2 and the release of a second tranche USD500,000 in year 3).

40. Governance issues to be finalised include:

(a) selection and appointment of the FIRM Steering Committee (CFI and a representative from the SFIs should have a seat, apart from the CBS the MoF and probably the Inhlanyelo Fund) – with the role to focus on policy issues, strategy and overall development of the guarantee scheme;

(b) selection and appointment of the guarantees and claims committee (CFI and CBS and a representative from the SFIs should be part) – with the role to seal agreements with the SFIs. to review, analyse, approve/reject claims from SFIs, and approve FIRM's liability and pay-out schedule.

41. Outreach activities include promotion of the FIRM and its function to all potentially interested financial institutions (formal or informal) operating in the rural sector and communication of the projects goals to potentially interested parties. This process will prepare prospective applicants for the guarantee (financial institutions) to participate in the bidding process. The outreach should be a responsibility of both the CBS and the CFI. FIRM will benefit from the larger possible participation of financial institutions in the tendering process.

42. Finalisation of tendering procedures involves: a) finalisation of the selection criteria and scoring method and b) preparation of the tender documents. Scoring of the tenders will be based mainly on three categories of criteria: a) experience in rural financing and rural finance specific products expected to be offered (20%), b) leverage committed, volume of guarantee applying for (up to USD1 million), action plan to reach full capacity in two years, realistic financial projections, geographical coverage area and expected number and average amounts of loans, due diligence and loan appraisal, how (if selected) can further promote the objectives of the project (45%), c) interest rates to be offered, under what conditions they will apply –specific risk assessment criteria (35%). Tender documents should explain clearly: a) what are the objectives of the project and how the FIRM is expected to promote them; b) how the FIRM is expected to function (financially and operationally); c) what are the expectations from the successful candidates; d) how the three types of guarantees are going to be issued; e) the leverage x10 and the minimum x7 expected; c) the 80% coverage (60% for individual and wholesale guarantees) of the guarantees; f) the 7% cap; e) the 0.7% (1% in the case of individual and wholesale guarantees) management fee; g) the responsibility of the SFIs to prevent moral hazard; h) the eligibility criteria for issuing loans (Eligible investments will be those in agriculture, agribusiness, or non-farm rural MSME's with 1-10 employees, less than SZL50,000 in assets, and turnover smaller than SZ60,000 a year); i) the minimum SZL5,000 (individually) and SZL200,000 (individually or as a group) loan amount allowed (to be individually negotiated with CFI and CBS for individual and wholesale agreements); j) the maximum loan tenor (estimated at two years); k) the claims procedure; l) the reporting obligations (same as with what the credit officer reports to the bank); m) treatment of returning borrowers (the financial institution should not use a guarantee for returning borrowers with good track record); n) the tendering document should specify the nature of financial institutions allowed to participate; o) the selection criteria.

43. An evaluation committee will be formed with participants from CFI, CBS and MoF. The committee will score the tenders and will then assign quotas to the 6 highest scoring contestants, as follows:

(a) 1st will be assigned 35% of the total guarantee offered;

(b) 2nd will be assigned 25% of the total guarantee offered;

(c) 3rd will be assigned 15% of the total guarantee offered;

(d) 4th will be assigned 10% of the total guarantee offered;

(e) 5th will be assigned 10% of the total guarantee offered; and

(f) 6th will be assigned 5% of the total guarantee offered.

44. Should there be less than 6 successful participants or the percentage assigned to them is higher than what they bid for, the remaining amounts will be channelled to the remaining contestants proportionately. The successful contestants will be denoted as Selected Financial Institutions (SFIs).

45. Claim validation and payment will be much simpler under FIRM than it is now under SSELGS. The SFIs would be able to call in claims after: a) arrears have reached 90 days; b) borrowers have been appropriately warned and CFI and CBS informed within 30-40 days of arrears; c) the outstanding loan has been called in; and d) legal proceedings have been initiated to foreclose on collateral and recover the debt. Should legal proceedings lead to recovered loans, they will be distributed under the pari-pasu principle. On 91st day after the first missed instalment, the SFI will be able to call in the guarantee. On receiving a claim, SCG' claim committee will be informed immediately and ascertain that: a) the fee was paid by the SFI; b) the claim was presented to SCG within 30 days (after the 90 day of missed installment); c) the SFI had not rescheduled the loan without the approval; and d) the borrower was eligible. If any member from the claims committee does not come up with an objection for payment within 15 working days, the SFI will be paid 50% of the guaranteed amount with the remaining 50% to be paid 120 calendar days later (legal proceedings for loan recovery should continue and recovered amounts distributed accordingly). The claims committee will convene quarterly to assess the good standing of the loan portfolio. The reasons for not guaranteeing a loan and for rejecting a claim should be thoroughly described.

46. Reporting should be prompt and the relevant database (credit history tool) be updated on a weekly basis by the CFI. The SFIs should report to CBS and the CFI monthly on: a) outstanding loans (portfolio, individual, wholesale); b) new loans extended; c) updates on legal proceedings for loan recovery (if any); d) portfolio at risk; e) default rate; f) final loan loss rate. SCG will issue an invoice for each new loan accepted. The Board should receive by the CBS a monthly consolidated activity and financial report. CBS will report quarterly to CFI on the FIRM's operating cost and revenue.

47. CBS's financial statements concerning FIRM's activities will be audited by an international audit firm operating in Swaziland annually.

48. The Steering Committee will convene quarterly to evaluate the loan portfolios and apply corrective actions, if and when necessary.

49. The guarantees are to be disbursed in tranches. Upon selection of the SFIs, FIRM is going to release a first tranche of USD500,000. SFIs which reach the 10 times leverage and keep a healthy portfolio, will be entitled to request their quota of the next USD500,000 tranche. If by end of year 2 some SFIs do not fulfil their obligations, quotas are to be re-examined. In Year 3 if the performance of FIRM is positive (high leverage, low NPL, adequate recoveries), the third tranche will be released, otherwise it will be cancelled and the funds will be divested in other activities.

ii. Demand/Supply Survey

50. CFI will launch a public tender within 3 months of loan effectiveness, following regular public tendering procedures. The successful candidate should have experience in rural finance, a good

understanding of the local and regional rural financial environment, and experience in applied contemporary rural business development practices. Tenders will be evaluated on the quality of their methodology to deliver at least the following: a) catalogue of credit products available to rural MSMEs and smallholders per credit provider and perceptions of credit providers on the creditworthiness of rural micro-entrepreneurs and smallholders; b) market segmentation of active and potential rural borrowers (distinct categories sharing similar traits, constraints and needs (agricultural or off-farm production, financial condition, business experience, geographic distribution, needs, habits, perceptions on the attitude of financial institutions towards rural investments); c) methodology for allowing CFI to update facts and perceptions on a regular basis; d) a model defining a business graduation roadmap that will describe the steps required for each rural type to advance to the next level of development, until full financial graduation.

iii. Demand/ Supply Database

51. CFI will commission the design and installation of a relational database (software and hardware) to monitor data records (including their evolution over time) of: a) type; b) number; c) location; d) entrepreneurial activities; e) income level; f) business experience; g) financial inclusion level. The database will keep track of the supply side as well and its evolution over time. The database will be regularly updated under the methodology proposed by the Demand/Supply Survey. This activity should be operational within six months from project start.

iv. Credit History tool

52. CFI will commission the design and installation of a relational database (software and hardware) to track credit records of all active and repaid loans offered under the FIRM. The database should be able to provide alerts at portfolio level (defaulting rates, over or under exposure to risk, NPL, leverage, recovery rates, etc. – per SFI and aggregate). It will provide information both at SFI and client level. Client alerts should include be made for delayed payments, recurring guaranteed loans. The system should be able to generate reports on the credit history of each client. It should be designed to be able to be replicated and up-scaled. This system should be ready within six months from project start.

v. SCG database

53. CFI will commission the design and installation of a relational database (software and hardware) to keep track of the evolution of the SCG movement in Swaziland. Records kept will be anonymous and will include: a) type (rotating, accumulating); b) no of members; c) size and frequency of member contributions; d) capital and lending portfolio; e) size duration; f) type and cost of loans; g) repayment rate; h) book-keeping methods; i) training offered and interest in becoming formal; j) affiliated NGO. The data are to be updated at least twice a year with the cooperation of the relevant NGOs. NGOs will be offered feedback and technical assistance from the CEPD.

vi. MFI feasibility study

54. The feasibility study will be completed in Year 2 and coordinated by CFI, with external technical assistance as needed, and is a strong fit with CFI's core mandate - as a broker/deal maker to help transform the sector for the better.

55. The feasibly study process must involve wide and deep consultation with all key stakeholders as well as technical and legal experts. Stakeholders include the existing banks and MFIs, regulators, government ministries with dormant or poorly performing funds.

vii. Agricultural Insurance feasibility study

56. A draft Terms of reference is attached as an Annex to this Appendix.

viii. SASCCO

57. CFI will draft an MoU with SASCCO setting out the terms of engagement. SASSCO will receive funds to hire 4 officers in the regions to promote the cooperative principle among informal SCGs with the aim to make them registered, train them appropriately and allow them to expand their reach to project's beneficiaries. SASCCO will also receive means of transport for these officers (details to be agreed by CFI). With the MoU, SASCCO it will commit to register at least 20 new groups per year. SASCCO will have to report quarterly on its activities and progress. This activity can be operational within the first six months from project's start.

ix. Mobile Money

58. CFI will continue its engagement with Mobile Money. It will approach the new mobile operator with the aim to expand Mobile Money's geographical reach and will continue its cooperation with MTN to expand financial services offered over mobile phones. These services currently include simple person-to-person transfers. CFI will tap on technical assistance from CEPD to propose and deliver more complex banking services for the rural communities with the aim to a) use mobile money to reduce transaction cost for the banks and by extension lower interest rates applied to beneficiaries and b) introduce mobile money credit related products, and c) facilitate cross-border transactions and remittances.

x. Capacity Enhancement and Policy Development Facility (CEPD)

59. The CEPD is a contingency fund to provide capacity assistance related to financial inclusion whenever needed. It is at the discretion of CFI to use as described. The RFC will make a provisional plan within the first six months to be revisited and updated annually. The plans will be sent to IFAD for non-objection. CEPD is meant to be a flexible resource offering technical assistance when needed in order to avoid miscalculations that may ultimately cost more to the project. CEPD is initially intended to support the following instances: a) support during implementation; b) assistance for the setup and operation of the guarantee fund; c) capacity enhancement for FIRM's management, monitoring and audit; d) capacity development for financial intermediaries on rural MSME and smallholder lending – including the development of manuals (financing models) for each value chain the project is engaging in; e) capacity for the design of new financial products more suitable to the needs of the rural MSMEs and the smallholders; f) assistance for the development and operation of the MFI, or the SCG Apex, etc.; g) policy support for the establishment of a 'small claims' judicial/extrajudicial process to speed up and make less expensive litigations in case of non-repayment for loans below SZL300.000.

xi. Remittances

60. In addition to the above, FINCLUDE will support CFI to investigate opportunities and progress action plans with the financial services industry to improve the flow, affordability and use of remittances for rural enterprise development, including where appropriate for investment in farm and non-farm micro-enterprises in the FINCLUDE cluster areas. These activities are expected to be progress from mid-term onwards, once other elements of the project are fully operational.

61. FINCLUDE will support CFI to investigate opportunities and progress action plans with the financial services industry in coherence with the financial inclusion strategy to improve the flow, affordability and use of remittances for rural enterprise development, including where appropriate for investment in farm and non-farm micro-enterprises in the FINCLUDE cluster areas.

62. At project inception, or even before to meet the Finscope survey agenda, CFI will commission a remittance and migrant households survey. The survey will be national-wide (as per Finscope surveys) surveying a sample of 3000 individuals with a specific focus on FINCLUDE cluster areas. The survey objective is two-fold: (i) to provide a diagnostic of the remittance industry with a financial inclusion length; (ii) to elaborate a segmentation of migrant households that meet the FINCLUDE targets groups.

63. The diagnostic part of the survey will achieve the following objectives:

(a) Demand-side survey on remittances and migrant households: to assess the incidence of remittances and migrant households among population, the main patterns of migrations (domestic and cross-border, seasonal and long term), the usage of formal / informal remittances and other financial services by migrant households.

(b) Mapping the supply side and assessing the comparative advantages of each stakeholders (banks, Swazipost, cooperatives, mobile operators):

 (i) their network of access points especially in rural areas;

 (ii) the complementary financial services provided, especially rural productive loans and savings;

 (iii) the costs of remittances and the corridors covered; and

 (iv) their ability and their strategic appetite to cross sell other financial services to remittance recipients.

(c) Assessing the regulatory and non-regulatory impediments (lack of legal document, lack of competition) that stifle the use of regulated channels at client level and the relevant policies to be put in place to resolve these issues.

(d) Summarising the gaps between demand and supply by highlighting the business opportunities to tap into the remittance market (both cross-border and domestic); providing strategic market-driven options for each category of FSPs to improve their supply of services to better cater to migrant households' financial needs; and drafting strategic milestones to update the roadmap for remittance and financial inclusion.

64. The survey will help to define different categories of migrant households with similar financial behaviours according to their migration patterns (domestic, cross-border, seasonal, long term), their status in the migrant households (migrant, family member, money management decision maker/taker, etc.) and pertaining to the FINCLUDE target groups (women, youth). The segmentation will help to define the key messages addressing migrant households features to be conveyed by the different stakeholders involved in the provision of business skill support, financial literacy and social mentoring to the cluster groups in order to insure their proper inclusion in the cluster approach.

65. Based on market opportunities and upon FSPs appetite, CFI will support the pilot testing of products linked to remittance to cross-sell financial services to remittance recipients with a particular attention given to the extension of the scope of services delivered and to the rural outreach of the partnering FSPs. Products relating to cross-border and mobile-enabled remittances will particularly be encouraged. The investment costs will be limited to consultancy for product design, marketing and awareness raising expenses and a co-financing from the private entity of 100% will be required in compliance with FFR guidelines to finance private companies.

66. To implement these activities the CFI and FINCLUDE will benefit from the strategic, technical and financing support from the FFR.

E. Terms of Reference – Key posts

67. Terms of reference are included for all key posts, additional staff and technical assistance / consultancies.

Team	Position	Type[156]
Project management	Project Director	CFI
	Project Manager	CFI
Finance and procurement	Procurement Officer	Contract
	Finance Manager	Contract
Comp 1: Cluster Development Team	Cluster Development Coordinator	Contract
	Cluster Development Deputy Coordinator	Contract
	Cluster Development Officers	Contract / Seconded
	Cluster Mobilization Supervisors	Contract
	Cluster Mobilizers	Contract
	Social Inclusion Specialist	Contract
	Social Mentor Supervisors	Contract
Comp 2: Rural Finance Team	Rural Finance Coordinator	Contract
	Rural Finance Deputy Coordinator	Contract
Knowledge & M&E	MIS specialist	Contract
	Knowledge Management, M&E and Communications Specialist	Contract
TA / consultancies	Cluster development capacity building	TA
	M&E system design and set-up	TA
	Social mentoring – various	TA

[156] Post shown as "Contract" will be recruited as individuals unless stated otherwise.

Position:	**Project Director (PD)**
Reports to:	Steering Committee
Supervises:	All project activities.
Duty station:	CFI
Summary of role:	The Project Director (PD) will lead the overall delivery of all aspects of the project and ensure close coordination between Component 1 and Component 2 teams and activities within scope, budget and timeline along the commitments specified in the contract signed with IFAD, under the guidance of the project Steering Committee to achieve high quality and timely results and project deliverables.
Mode of contract:	Staff of CFI (Government)
Main responsibilities	• Overall management, facilitation and supervision of project implementation, under the guidance of the Steering Committee (SC). • Ensure full integration of Component 1 and Component 2 activities and teams to deliver whole project results. • Provide guidance and leadership to establish and setting up the PMU, Component 1 and c2mponent 2 teams and putting in place the management, financial and operations procedures for project implementation. • Coordinate, supervise selection/hiring of competent key project personnel. • Overall guidance and support to PMU in preparing relevant aspects of the Project Implementation Manual, strategies and guidelines covering all component operations and systems including fund necessary for project implementation. • Overall guidance and support to PMU in establishing accounts and accounting procedures, financial arrangements and ensuring effective management of procurement, disbursement and funds replenishment operations in accordance with prescribed procedures. • Coordination of IFAD Supervision and Implementation missions regarding Project progress and ensure timely submission of annual work plan and budget for approval and withdrawal application for disbursement. • Supervision and monitoring all project activities and timely reporting on project performance and impact to GoS, IFAD and the Steering Committee as required by government and IFAD. • Attend project Steering Committee (SC), as the Member Secretary and ensure smooth coordination and cooperation with concerned stakeholders in implementing project activities. **Inclusions aspects** • Take overall responsibility of project performance on raising beneficiary incomes, including for poor and near poor individuals and households. • Develop a corporate project approach in which both the inclusion and market aspects of the Project are equally important. • Represent project approach and progress to social and economic inclusion in the Swazi policy and development arena. • Ensure that evidence-based analysis from Project interventions inform IFAD policy and support and extend the agenda for inclusive market development in Swaziland.
Experience & qualifications	Current CEO of CFI

Position: **Project Manager (PM)**

Reports to: Project Director (PD)/Member of Senior Management Team

Supervises: Day-to-day management of all project activities and oversight of all project staff. Direct supervision of:

- Cluster Development Coordinator
- Rural Finance Coordinator
- Climate Activities Coordinator
- KM and M&E team

Duty station: CFI

Summary of role: Assist the PD to lead the overall delivery of all aspects of the project and ensure close coordination between Component 1 and Component 2 teams and activities within scope, budget and timeline along the commitments specified in the contract signed with IFAD, under the guidance of the Project Director and the project Steering Committee to achieve high quality and timely agreed results and deliverables of the project.

Direct day-to-day management of the PMU and also act as the Component 2 lead.

Mode of contract: CFI staff

Main responsibilities To assist the PD in carrying out the following responsibilities:

- Overall management, facilitation and supervision of project implementation, under the guidance of the project Steering Committee (SC).
- Ensure full integration of Component 1 and Component 2 activities and teams to deliver whole project results.
- Lead implementation of Component 2.
- Provide guidance and leadership to establish and setting up the PMU, Component 2 teams and putting in place the management, financial and operations procedures for project implementation.
- Coordinate and supervise selection/hiring of competent key project personnel.
- Overall guidance and support to PMU in preparing relevant aspects of the Project Implementation Manual, strategies and guidelines covering all component operations and systems including fund necessary for project implementation.
- Overall guidance and support to PMU in establishing accounts and accounting procedures, financial arrangements and ensuring effective management of procurement, disbursement and funds replenishment operations in accordance with prescribed procedures.
- Coordination of IFAD Supervision and Implementation missions regarding Project progress and ensure timely submission of annual work plan and budget for approval and withdrawal application for disbursement.
- Supervision and monitoring all project activities and timely reporting on project performance and impact to GoS, IFAD and the Steering Committee as required by government and IFAD.

<u>Inclusions aspects</u>

- Take overall responsibility of project performance on raising incomes, including for poor and near poor individuals and households.
- Develop a corporate project approach in which both the inclusion and market aspects of the Project are equally important.
- Represent project approach and progress to social and economic inclusion in the Swazi policy and development arena.
- Ensure that evidence-based analysis from Project interventions inform IFAD policy and support and extend the agenda for inclusive market development in Swaziland.

Experience & qualifications	Required • At least 15 years work experience in the development sectors and/or private sector, of which at least 10 years of experience in a senior project/programme management role. • Experience in agriculture cluster, public private partnership and service market development. • Strong understanding of financial inclusion in Swaziland. • A track record in practical evidenced-based management practice to manage project activities for results. • Experiences that demonstrate creativeness, innovativeness and entrepreneurial skills. • Possesses high quality attributes on leadership, facilitations and coaching. • Excellent spoken and written English. • Proven skills in staff and budget management, networking and external communication. • Good interpersonal skills and capacity to work effectively as part of a team.

Position:	**Accountant/Administrator**
Reports to:	**Project Manager**
Supervises:	n/a
Duty station:	PMU
Summary of role:	The main objective of the Accountant/Administration function is to ensure achievement of result oriented outcomes in the FINCLUDE Financial management. Outputs are focusing on to financial management, accounting and financial reporting of FINCLUDE.
Mode of contract:	

Main responsibilities

Activities

- Substantially participate and contribute to the project's Financial Planning through the AWPB.

  These responsibilities will include:

  1. As part of the PIU management team, and in collaboration with the Project Manager and M&E officer, participate fully in the formulation AWPBs, based on Project Logical frame work for the PIU.
  2. Thereafter assist in the consolidation and submission of the Project's Annual Work.
  3. Plan and Budgets, on time within the GoS budget cycle, the IFAD time framework.
  4. Formulation of the PIU management activities budget.
  5. Participating in the Formulation of the Project Procurement and Training Plans.
  6. Participating in the Subsequent revisions and updates of AWPB's.
  7. Preparing Rolling cash flow projections in line with the funding demands of the project activities.
- Ensure that the budget is submitted to IFAD on or before the beginning of 60 days before the beginning of the AWPB's financial year in this case 31 January of the previous year before the budget year.
- Using the dedicated accounting software, the PA is responsible for the financial data capture up-to-date and maintenance of the project's books of account, ledgers and records. Update of the financial transactions should be done weekly and an accurate trial balance produced regularly at the end of each month. The PA must ensure that the updates are carried throughout the month and completed by the second Tuesday of the following month.
- Ensure Reconciliation the Cash books with the Bank statements at the end of each month and no later by the Second Friday of the following month.
- Responsible for the submission to the NPC, Monthly financial statements, which should include the status of project's cash position, Status of accountabilities of the funds remitted to the implementing Agencies, SPA and other bank reconciliations, and Statements of Expenditures (SOEs) for all the expenditures paid during the month. These statements should be provided by the 3rd Tuesday of the following month.
- Responsible for the Quarterly financial statements and reports for

incorporation into the Quarterly and semi –annual progress reports that presents financial information as detailed here below. In order to meet the semi-annual/annual physical and financial progress reports deadlines of 60 days after the end of the period, the FC must deliver the financial statements on or before, 31st August and 28th February of each year.

1. The financial statements of sources of funds by financiers i.e. IFAD, GoS and from other sources. These financial statements should also present the expenditure by category, subcomponents and components.
2. Financial statements for the full disclosure of the bank balances
3. Financial statements for the Reconciliation of the SPA, in accordance with the LTB, and for the Project Expenditure to the IFAD statements.
4. Financial statements of disbursement performance by Financier and Category, Expenditure by components and, suitably compared with the Annual budgetary estimates and cumulative actual performance.
5. Financial Statement for the update of the procurement progress, against the procurement plan.
6. These financial statements must be appended with suitable narratives and notes, which highlight any problem areas being experienced, proposed solutions and the overall way forward.

- Ensure the procurement plan is prepared and updated on a regular basis in accordance with the provisions of the Financing Agreement, IFAD's Procurement Guidelines and the Project Procurement Handbook.
- Identify sources of supply, evaluate supplier eligibility and maintain a list of pre-qualified suppliers/contractors keeping PD & PM informed at all times.
- Prepare all standard bid/tender documents, including pre-qualification documents/EOIs/bid documents /Invitation to Bid/Tender; Technical and Financial Evaluation, Negotiation, modification/ updating of the ToR for individual consultants, consulting firms, Govt. institutes and training providing organizations etc. with due consultation of the PM & PD,Guide, advise and support the Bid Evaluation Committee in preparing the bid evaluation report and recommendation for award of contract upon incorporating all comments, due diligence, complaints and opinion of complaints (if any).
- Conduct due diligence for the winning bidder by undertaking background/ reference/credit checks to determine financial and operational capacity to perform the scope of work.
- Draft Contract Documents.
- Manage procurement activities which are subject to prior review and No Objection by IFAD. Support the PMU to ensure that IFAD's No Objection is obtained.
  Manage complaints related to procurement processes/issues and transmit to the relevant authority as appropriate.
- Prepare Procurement Performance report (e.g. time taken at each step of the procurement process, improvement of procurement cycle, best practices etc.).
- Support the Project in following up on any issues related to Procurement, identified in the Supervision Mission Report and Audit Report.

	• Advise and propose mitigation measures for non-performance of contracts and report any identifiable indicators of fraud, collusion and other unethical practices in procurement/ selection processes
Experience & qualifications	Required • Minimum Masters level degree in one of the following disciplines: Economics; Master of Business Administration, Public Procurement, Engineering or Statistics or similar. • At least 5 years working experience in public organization/Semi-Public organization for procurement of goods, works and services in projects. Minimum recruitment qualifications: • Knowledge of national and international organizations/agencies' (e.g. IFAD, WB, AfDB, EU) procurement regulations and procedures. • Three years' procurement experience, including Special training on procurement from Central Procurement Technical Unit (CPTU) or equivalent. • Computer proficiency: Windows, MS Office, Excel, and Power Point.

Position:	**Procurement Officer**
Reports to:	**Project Manager**
Supervises:	n/a
Duty station:	PMU
Summary of role:	The main objective of the Procurement Specialist function is to manage all procurement activities, advise, guide and mitigate associated procurement risks under the project. The individual will ensure that sound procurement practices are applied consistently as prescribed by the relevant national laws, guidelines and policy documents of Swaziland and in accordance with the provisions of the Financing Agreement with IFAD, the provisions of the Letter to the Borrower, IFAD's Procurement Handbook and for cases of International Competitive Bidding, in accordance with the rules and procedures of the World Bank.
Mode of contract:	

Main responsibilities

- Ensure the procurement plan is prepared and updated on a regular basis in accordance with the provisions of the Financing Agreement, IFAD's Procurement Guidelines and the Project Procurement Handbook .
- Identify sources of supply, evaluate supplier eligibility and maintain a list of pre-qualified suppliers/contractors keeping PD & PM informed at all times.
- Prepare all standard bid/tender documents, including pre-qualification documents/ EOIs/bid documents /Invitation to Bid/Tender; Technical and Financial Evaluation, Negotiation, modification/ updating of the ToR for individual consultants, consulting firms, Govt. institutes and training providing organizations etc. with due consultation of the PM & PD,Guide, advise and support the Bid Evaluation Committee in preparing the bid evaluation report and recommendation for award of contract upon incorporating all comments, due diligence, complaints and opinion of complaints (if any).
- Conduct due diligence for the winning bidder by undertaking background/reference/credit checks to determine financial and operational capacity to perform the scope of work.
- Draft Contract Documents.
- Manage procurement activities which are subject to prior review and No Objection by IFAD. Support the PMU to ensure that IFAD's No Objection is obtained.

  Manage complaints related to procurement processes/issues and transmit to the relevant authority as appropriate.
- Prepare Procurement Performance report (e.g. time taken at each step of the procurement process, improvement of procurement cycle, best practices etc.).
- Support the Project in following up on any issues related to Procurement, identified in the Supervision Mission Report and Audit Report.
- Advise and propose mitigation measures for non-performance of contracts and report any identifiable indicators of fraud, collusion and other unethical practices in procurement/ selection processes.

Experience & qualifications	<u>Required</u> • Minimum Masters level degree in one of the following disciplines: Economics; Master of Business Administration, Public Procurement, Engineering or Statistics or similar. • At least 5 years working experience in public organization/Semi-Public organization for procurement of goods, works and services in projects; <u>Minimum recruitment qualifications:</u> • Knowledge of national and international organizations/agencies' (e.g. IFAD, WB, AfDB, EU) procurement regulations and procedures. • Three years' procurement experience, including Special training on procurement from Central Procurement Technical Unit (CPTU) or equivalent. • Computer proficiency: Windows, MS Office, Excel, and Power Point.

Position: **Cluster Development Coordinator**

Reports to: Project Manager / Member of Senior Management Team

Supervises: Cluster Development Team (CDT)

Direct supervision of:

- Cluster Development Officers – contract and seconded
- Sociologist x1

Duty station: PMU with substantial travel to the field (>50% of time)

Summary of role: Overall technical lead in planning, implementation, monitoring and reporting of all activities under Component 1. Ensure effective coordination, management and capacity building of project staff for effective planning and timely implementation of activities within the project. Also responsible for the professional development and coaching of the project team and seconded partner staff such that they can run all project activities without external support by MTR. The CDC will also be part of the Senior Management team responsible for overall project performance.

Mode of contract: Rolling annual contract with a probation period of six months. The annual contract will be extendable each year based on satisfactory performance in the preceding period assessed by the PD and PM.

Main responsibilities

- Coordinate, Coach and Mentor the CDT and other project staff on inclusive cluster development practices and processes: identifying constraints/ opportunities, developing upgrading vision and strategies, critical interventions for investments, relationships enhancement, development of enabling institutions/services and stimulating actual scaling as part of a focused and actor driven project facilitation for specific cluster and commodities in continuous multi-stakeholder consultation process (MCMs).
- Develop training modules /manuals on Cluster development, MCM and other main elements and conduct training and capacity building activities inclusive cluster development and market system facilitation to project staff at various level.
- Support staff to identify specific potential investment area within specific clusters during MCMs, and facilitate farmers, farmers organisations, MSMEs, agribusiness, service provider in jointly developing concept notes and investment/business plans addressing critical cluster constraints/ opportunities for assessing loans for specific investment opportunities.
- Strengthen capacities of project staff in enhancing service capacities of agribusiness/traders, producer group and other commercial service providers and their relationships, within informal and formal contracting arrangements,
- Support staff for Brokering “win-win” and trust based business or service relationships among cluster actors including improvement in business enabling environment.
- Support project Monitoring and Evaluation (M&E) team to establish cluster baselines for the M&E system and result measurements updated regularly through Annual Cluster Tracking Surveys in all clusters.
- Provide strategic support to CDT for inclusion of poorer individuals and households in developing respective cluster investment proposals.
- Contribute to the knowledge development by generating lessons /cases in

	respective clusters/commodity industries, facilitate knowledge exchanges on clusters and others. • Responsible for the overall content and the links with other external knowledge on inclusive cluster/market development. Inclusion aspects • Develop the results chain for each cluster/commodity and advise on early indications and implications for inclusion objectives. • Take responsibility for developing a results chain and exploring intervention strategies for initially selected commodities in the design, as well as any additional commodities that are started during the project. • Facilitate communication between all parts of the project team and external partners on inclusion, mobilization and social mentoring. • Provide guidance on the procedures, phasing and sequencing of loan applications and 'public good' investments to ensure that these enable sufficient time for replication, lesson learning and inclusion. • Lead an induction workshop with key project management staff to support the development of a corporate approach to inclusive cluster development and the integration of the Cluster Development and Social Mentoring team.
Experience & qualifications	Required • At least 15 years work experience in the development sectors and/or private sector, of which at least 7 years of experience in promotion of private sector led inclusive clusters/value chains and private sector development with demonstrable evidence of the results achieved. • Demonstrated business mindset and commercial acumen. • Knowledge and experience in building capacity of stakeholders through advisory skills and facilitating multi-stakeholder consultation processes, value chain upgrading workshops and training. • Exceptional interpersonal skills and capacity to work effectively as part of a team. • Experiences with MSME proposal/investment plan development, appraisal, monitoring and evaluation, and feasibility analysis. • Experiences that demonstrate creativeness, innovativeness and entrepreneurial skills. • Possesses high quality attributes on leadership, facilitations and coaching. • Excellent spoken and written English. • Proven skills in staff and budget management, networking and external communication. • Good written English. • Master Degree in Business Administration, Agribusiness Development, Marketing or equivalent – substantial relevant experience may substitute for formal qualifications. Preferences given to: • experience in agriculture cluster/market development, public private partnership and service market development.

Position:	**Cluster Development Deputy Coordinator**
Reports to:	Cluster Development Coordinator / Member of Senior Management Team
Supervises:	Cluster Development Officers Cluster Mobilizers
Duty station:	assigned Regional centres
Summary of role:	Under the direct supervision CDC, be responsible for implementation of the cluster development interventions in the commodities and associated clusters assigned to their commodity team. Guide and coach Cluster Development Officers and Cluster Mobilizers to facilitate and support cluster actors in strengthening linkages, business planning, investment analysis and other areas that lead to improved performance of the cluster on a win-win basis.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project.

Main responsibilities

- Responsible for identifying emerging critical interventions for investments, enhancement of relationships, development of enabling institutions and services and stimulating actual scaling as part of focussed and actor driven project facilitation for the specific cluster in a continuous multi-stakeholder consultation process.
- Coordinate, Coach and Mentor staff in their team.
- Facilitation of cluster development initiatives including cluster planning, implementation, monitoring and reporting in specific clusters.
- Facilitate and Support producers, producer organisations, MSMEs agribusiness, suppliers in developing concept notes and investment/business plans for accessing loans for investment in specific clusters.
- Facilitate and support Cluster Mobilisers for timely collection and assessment of business proposals / plans from technical, business, management, financial and inclusion perspective in the specific cluster.
- Facilitate and support producer organisations, cooperatives. MSME and agri-business to meet market requirements and strengthening technical, financial and business services providers/provision for specific clusters.
- Brokering “win-win” and trust based business or service relationships among cluster actors including improvement in business enabling environment.
- Provide strategic support to commodity team and cluster mobilizers for inclusion of poorer individuals and households in developing respective investment proposals.
- Contribute to the knowledge development in the relevant commodities and clusters by undertaking case studies and document and promote learning in activities/investment following the knowledge agenda.
- Undertake any other duties as requested by the CDTL or PM.

<u>Inclusion aspects</u>

- Regularly update results chain and implications for inclusion by different household and demographic profiles.

	• Interact regularly with members of the Cluster Mobilisation Teams and ensure that cluster plans and strategies adjust to field reality. • Identify bottlenecks specific to poorer individuals and households and youth and explore technical resolution options. • Explore options for providing embedded services and extending linkages between service providers and households. • Explore technical and financial options for graduated cluster entry adapted for poorer individuals and households and youth. • Support MCM discussions with specialist and experience-based technical options on inclusive market development.
Experience & qualifications	Required • Bachelors in Business Administration, Agribusiness Development, or relevant At least 5 years' relevant experience on inclusive cluster / value chain development in particular agriculture markets, preferably working experience with private sector. • Demonstrated business mindset and commercial acumen. • Sound experience in private sector led business development, service provision and supply chain development. • Experiences with management and market analysis, MSME investment plan development, appraisal, monitoring and evaluation, and feasibility analysis. • Knowledge and experience in building capacity of stakeholders and facilitation of multi-stakeholder consultation workshops and training. • Experiences that demonstrate creativeness, innovativeness and entrepreneurial skills. • Excellent spoken and written English. • Good interpersonal skills and capacity to work effectively as part of a team. Preferences given to: • Experience in agriculture cluster/value chains, public private partnership and service market development.

Position:	**Cluster Development Officers (CDO)**
Reports to:	Cluster Development Coordinator (CDC) / Deputy Coordinator (CDDC)
Supervises:	Cluster Mobilizers
Duty station:	assigned Regional centres
Summary of role:	Under the direct supervision CDC/CDDC, be responsible for implementation of the cluster development interventions in the commodities and associated clusters assigned to their commodity team. Guide and coach Cluster Mobilizers to facilitate and support cluster actors in strengthening linkages, business planning, investment analysis and other areas that lead to improved performance of the cluster on a win-win basis.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project.

Main responsibilities

- Responsible for identifying emerging critical interventions for investments, enhancement of relationships, development of enabling institutions and services and stimulating actual scaling as part of focussed and actor driven project facilitation for the specific cluster in a continuous multi-stakeholder consultation process.
- Coordinate with other members of their team and mentor Cluster Mobilizers
- Facilitation of cluster development initiatives including cluster planning, implementation, monitoring and reporting in specific clusters.
- Facilitate and Support producers, producer organisations, MSMEs agribusiness, suppliers in developing concept notes and investment/business plans for accessing loans for investment in specific clusters.
- Facilitate and support Cluster Mobilisers for timely collection and assessment of business proposals / plans from technical, business, management, financial and inclusion perspective in the specific cluster.
- Facilitate and support producer organisations, cooperatives. MSME and agri-business to meet market requirements and strengthening technical, financial and business services providers/provision for specific clusters.
- Brokering “win-win” and trust based business or service relationships among cluster actors including improvement in business enabling environment.
- Provide strategic support to commodity team and cluster mobilizers for inclusion of poorer individuals and households in developing respective investment proposals.
- Contribute to the knowledge development in the relevant commodities and clusters by undertaking case studies and document and promote learning in activities/investment following the knowledge agenda.
- Undertake any other duties as requested by the CDC or PM.

<u>Inclusion aspects</u>

- Contribute to regular updating of results chain and implications for inclusion by different household and demographic profiles.

	• Interact regularly with members of the Cluster Mobilisation teams and ensure that cluster plans and strategies adjust to field reality. • Identify bottlenecks specific to poorer individuals and households and youth and explore technical resolution options. • Explore options for providing embedded services and extending linkages between service providers and households. • Explore technical and financial options for graduated cluster entry adapted for poorer individuals and households and youth. • Support MCM discussions with specialist and experience-based technical options on inclusive market development.
Experience & qualifications	Required • Bachelors in Business Administration, Agribusiness Development, or relevant At least 3 years' relevant experience on inclusive cluster / value chain development in particular agriculture markets, preferably working experience with private sector. • Sound experience in private sector led business development, service provision and supply chain development. • Experiences with management and market analysis, MSME investment plan development, appraisal, monitoring and evaluation, and feasibility analysis. • Knowledge and experience in building capacity of stakeholders and facilitation of multi-stakeholder consultation workshops and training. • Experiences that demonstrate creativeness, innovativeness and entrepreneurial skills. • Excellent spoken and written English. • Good interpersonal skills and capacity to work effectively as part of a team. Preferences given to: • Experience in agriculture cluster/value chains, public private partnership and service market development.

Position:	**Cluster Mobilization Supervisor (CMS)**
Reports to:	Cluster Development Coordinator (CDC) / Deputy Coordinator (CDDC)
Supervises:	Social Mobilisers
Duty station:	assigned Regional centres
Summary of role:	Contribute to implementation of the project's field activities through providing technical and strategic support to Cluster Mobilizers and enabling an effective flow of information from field to inform the planning activities of the clusters and commodity teams. He/she will have a critical responsibility to ensure inclusion considerations are fully mainstream into all project activities and to ensure the full and equal participation of poorer individuals and households, youth and women in project activities.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project management.
Main responsibilities	• Maintain good relationships with traditional Chiefdom leadership and Chiefdom Development Committee in cluster areas. • Provide technical, administrative and strategic support to Cluster Mobilizers (CM) and enable effective communication between CM and the strategic planning of the Commodity Teams. • Support CM to map clusters through ensuring and monitoring that indicators and criteria to identify inclusive market opportunities are followed. • Monitor and validate CM rapid mapping outcomes to ensure that these are thorough and meet project objectives. • Provide a conduit for communication, learning exchange and mutual support between CMs. • Provide strategic support to CMs on mobilization methods that support the inclusion of poorer individuals and households, youth and women. • Ensure that CMs communicate project activities and opportunities to poorer individuals and households, youth and women within potential clusters and that the opportunities and risks are clearly explained and based on project validated economic models. • Provide technical backstopping to CMs and Business Skills / Social Mentors, if required, to enable the timely collection of data for the MIS and liaise with M&E team to ensure optimal operation of MIS towards project objectives. • Facilitate interaction, linkages and negotiation between cluster stakeholders within clusters and enable learning exchange between different clusters. • Provide technical and advisory support to CMs in the assessment and development of household proposals to access project facilitated loans. • Mentor CMs in the identification of Business Skills Mentors (BSM), monitor the effectiveness of training and provide feedback to enable capacity building to be optimized. • Aggregate and analyze information collected from CMs to support the strategic planning requirements of the CDT and partner FIs, as and when required. • Support the implementation of project facilitated individual and MSME

	investments through technical assistance, regular monitoring and feedback. • Timely and regular reporting to the CDTL / CDSO as per prescribed format, hard or electronic, or both. • Coordinate with local bodies, local agencies and like-minded organizations and seek contribution in maximizing project benefits. • Take responsibility for the overall performance of CM field level activities implemented within own command areas. • Other activities as directed by the Senior Management team or CDC.
Experience & qualifications	Required • Good interpersonal skills and the ability to work effectively with smallholder households and diverse cluster actors. • Capacity for human resource management and strategic planning, networking and coordination. • Bachelors in any subject with at least 3 years of working experience in relevant field – e.g. market oriented community mobilization. • Good computer / social media skills will be an additional advantage. Preferences given to: • Candidate with experience of market oriented projects.

Position:	**Cluster Mobilizer (CM)**
Reports to:	Cluster Mobilization Supervisor (CMS)
Supervises:	n/a
Duty station:	Respective clusters as designated by the project
Summary of role:	The **Cluster Mobilizer (SM)** will facilitate the implementation of the project's field activities in particular mobilization of producers and MSME into project activities (including inclusion of poorer individuals and households, youth and women), business facilitation and linkages. He/she will also work as field facilitator under direct supervision of the Cluster Mobilizer Supervisor who will be managed by the Cluster Development Coordinator / Cluster Development Deputy Coordinator.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project.
Main responsibilities	• Support CDT senior staff to establish and maintain engagement of FINCLUDE with tradition leadership in Chiefdom and chiefdom Development committees. • Carry out rapid mapping and cluster identification for respective cluster to support the commodity teams. • Identify individuals and households interested to join cluster activities, carry out producer group formation and ensure inclusion of poorer households, youth and women. • Mentoring/coaching producer groups/cooperatives to interact with other cluster actors and MSMEs and negotiate their interests in pursuit of commercial activities. • Facilitate interaction, linkages and negotiation between groups with MSMEs/ agribusiness /buyers and suppliers (inputs or services - Technical, Business and Financial). • Facilitate access of project individuals and households to loans from partner FIs, field verification and Business Plan preparation. • Facilitate and support producer groups and participating individuals and households to develop market led production plans (crop calendar) and its implementation. • Support the implementation of project facilitated investments through technical Assistance, regular monitoring field data entry/management and feedback. • Identify, Coach and Mentor Business Skills Mentors to conduct Business Skills classes to their producer groups as per training module prescribed from project. • Training and supervise peer mentors (BSM and Social Mentors) to gather key data on participating individuals and households for the MIS using tablets. • Timely and regular reporting to Cluster Mobilization Supervisor as per prescribed format, hard or electronic, or both. • Coordinate with local authorities and agencies and like-minded organizations and seek contribution in maximizing project benefits. • Take responsibility for field level activities implemented within own command areas. • Other activities as directed by the CMS, and PMU management.
Experience & qualifications	<u>Required</u> • Completed "Senior Secondary" education / SGCSE in any subject with at least 2 years of working experience in community mobilization, preferably in market led projects. • Good interpersonal skills and the ability to work effectively with individuals and households interested in farm and non-farm enterprise and with diverse cluster actors. • Good computer skills will be an additional advantage.

- Proficient in the use of social media and smartphones.

Preferences given to:

- Candidates from local area.
- Candidate having experience in market oriented projects or as an entrepreneur.

Position:	**Rural Finance Coordinator (RFC) / Deputy Coordinator (RFDC)**
Reports to:	Project Manager / Member of Senior Management Team
Supervises:	Inputs from other CFI team on Comp. 2
Duty station:	CFI
Summary of role:	To coordinate all the activities of Component II.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project management.
Main responsibilities	• To have a clear grasp of FINCLUDE's objectives and strategy and a clear focus towards their achievement. • To promote financial inclusion in the rural areas. • To coordinate all the activities of Component II. • To participate in cluster meetings and understand the dynamics, opportunities and setbacks beneficiaries are facing and propose solutions relevant to rural finance. • To support the setup of FIRM and monitor its operation. • To regularly liaise with SFIs and monitor their progress towards contributing to the achievement of project's intended objectives. • To coordinate activities relevant to the design, installation, update and exploitation of the database and the credit monitoring tool. • To work together with the MIS to deduce useful information from the collected data and prepare presentations to promote the project's objectives to all stakeholders. • To showcase success stories and good practices to relevant stakeholders. • To engage with the MPPCU and assist it to become a fully functional MFI. • To monitor SASCCO's progress against agreed objectives. • To liaise with Inhlanyelo and engage it with the project. • To liaise with MTN and Swazi Mobile with the aim to promote mobile money applications improving the financial inclusion of the rural beneficiaries. • To develop a work plan on how CEPD will be used over the years. • To prepare project reports. • To support clusters in presenting the business plans to SFIs and monitor their repayment schedules. • To liaise with NGOs to coordinate activities related to upscale the activity of SCGs.
Experience & qualifications	The incumbent should be a young dynamic rural finance expert with good experience in policy and advocacy work with strong written and verbal communication skills in English and siSwati. The candidate should have reasonable work experience the area of microfinance and an understanding of MFI operations. Experience of working with multiple stakeholders in civil society and the government at different levels is a plus. The candidate should have good communication and presentation skills, have at

least a Masters' degree in a relevant field, with 10 years of demonstrated experience in development, including microfinance, in the region and a track record of achievement in developing and implementing marketing driven approaches and systems to address issues in this sector. The candidate should be proficient in written and spoken in English and siSwati and have proven management skills and ability.

Position:	**Climate Activities Coordinator (CAC)**
Reports to:	Project Manager / Member of Senior Management Team
Supervises:	Contracted TA, coordinates with Component III implementing partners
Duty station:	CFI
Summary of role:	To coordinate all the activities of Component III; to be the leader for climate resilience and climate finance in the project in terms of strategy and implementation; to bring together a wide variety of stakeholders and ensure they are engaged.
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project management.
Main responsibilities	• To have a clear grasp of FINCLUDE's objectives and strategy and a clear focus towards their achievement. • To coordinate all the activities of Component III. • To bring together the different stakeholders engaged in climate financing and develop joint strategies and plans, ensuring that key stakeholders are engaged while creating and maintaining momentum. • To develop a stakeholder database / map in this regard. • To initiate the Technical Working group on Climate Change, identifying participants, organizing a number of initial meetings and ensuring the TWG is a useful and efficient instrument for technical collaboration. • To organize regular meetings and/or prepare regular communications, in close collaboration with the MIS. • To coordinate the setup of the Climate Investment Facility, in close collaboration with CDC on the Sector Development Facility; • The manage the service provider for public investments under the Climate Investment Facility. • To coordinate activities relevant to the Climate Information Strategy. • To coordinate activities relevant to the Climate Financing Strategy. • To organize the Climate Finance Fair as a high-profile event, including the identification and invitation of national and international participants, selection of venue and time, liaison with relevant Government institutions to ensure adequate representation. • To prepare progress reports for Component III.
Experience & qualifications	The ideal candidate would be a young and dynamic individual with a background in either climate / environment or finance, with strong and proven affinity with the other area of expertise. The candidate should have strong written and verbal communication skills in English and siSwati as well as experience of working with multiple stakeholders in civil society and the government at different levels. The candidate should have good communication and presentation skills, have at least a Masters' degree in a relevant field, with 8 years of demonstrated experience in development in the region and a track record of achievement in developing and implementing marketing driven approaches and systems to address issues in this sector. The candidate should be proficient in written and spoken in English and siSwati and have proven management skills and ability.

Position:	**Information and M&E Officer (MIS)**
Reports to:	Project Manager
Supervises:	Work closely with the CFI Information and Research Officer
Duty station:	CFI
Summary of role:	
Mode of contract:	Rolling annual contract with a probation period of six months. The annual contract will be extendable up to the project period based on satisfactory performance in the preceding contract assessed by the project management.
Main responsibilities	• Have a clear understanding of FINCLUDE's objectives and develop a clear strategy on how to use the CFIs information system to monitor and promote them. • Provide support and maintenance to existing management information systems. • Be actively involved in the design and installation of project databases (software and hardware). • Be part of the relevant selection committees. • Generate and distribute management reports in accurate and timely manner. • Develop documentation to allow for smooth operations and easy system maintenance. • Provide recommendations to update current information system to improve reporting efficiency and consistency. • Perform data analysis for generating reports on periodic basis. • Develop a RIMS – DCED based platform (with support from M&E supervision missions) to monitor and evaluate the project's performance. • Deliver a mechanism to update relevant data. • Provide strong reporting and analytical information support to management team. • Generate both periodic and ad hoc reports as needed. • Understand problems and provide appropriate technical solutions. • Analyze business information to identify process improvements for increasing business efficiency and effectiveness. • Participate in cross-functional meetings to resolve recurring issues. • Provide support and assistance in issue troubleshooting and resolution.
Experience & qualifications	The incumbent should be a self-motivated technology enthusiast, who can call upon their critical thinking skills when problem solving software, hardware, networks and databases or formulating update schedules. The candidate should have an active analytical disposition and understand how the parts of a given information system affect the functionality of the whole. Strong communication and presentation skills will be an important plus. The candidate should be B.A. holder and proficient in SQL, MS Access and MS Office Suite, have at least 3 years' experience in developing IT systems and processes to improve efficiency, being aware of changes to technology including web reporting. The candidate should be able to demonstrate excellent analytical

skills to enable effective interpretation of data so that trends, queries and anomalies can be identified with a focus on: presenting data clearly to various audiences; understanding and explaining what the data means; using software applications to manipulate and analyse data and develop processes that enable effective use of data. The candidate must demonstrate excellent organisational skills and be able to prioritise workload, be able to work flexibly, independently and in a team and be able to react appropriately to changing team priorities.

Position:	**TA: M&E & Knowledge Management**
Reports to:	Project Manager
Supervises:	Technical coaching of Project M&E staff
Duty station:	PMU
Summary of role:	The TA on M&E and Knowledge Management will support the PMU in setting up and implementing the M&E system that integrates ORMSRIMS, project log frame and key principles of the Donor Committee for Enterprise Development Standard (DCED) and Knowledge Management and Communications Strategy and the result-based reporting system; this includes defining the detailed requires for the MIS in a system specification that can be contracted to a systems engineer to implement. S/he will also be responsible for the capacity building and coaching of the project staff on KM and M&E aspects.
Mode of contract:	Short term consultancy, possibly with multiple inputs.

Main responsibilities	Develop the M&E System and Knowledge Management Communications Strategy with mainstreaming of social inclusion objectives:
	• Set up the M&E system:
	  o Revise the project logframe matrix.
	  o Assist in developing the results oriented-AWPB.
	  o Develop the overall framework for the project M&E.
	  o Guide the process of reporting against the project key indicators.
	  o Prepare and M&E matrix.
	• Set up an MIS system that entails:
	  o Development of formats (for data collection, analysis and interpretation) to track project inputs and its results: production, consumption, sales and income of the producers and traders/buyers for each cluster.
	  o Annual cluster tracking – combining traders surveys, reference secondary data sources and household-level tracking using enterprise diaries.
	  o Define requirements for use of software for a web-based online MIS and off-line tablet based devices.
	• Support the CFI Research and Information Officer to develop the Knowledge Management and Communications Strategy.
	• Provide technical assistance to recruit, guide and supervise organisations or individuals contracted to implement surveys and studies required for evaluating project effects and impacts. E.g. Rolling baseline survey, Annual Cluster Tracking Survey, etc.
	
	Staff Capacity building:
	• Develop capacity-building plan on M&E and Knowledge Management for the project staff - including Cluster Mobilizers and peer mentors (Business skills and Social mentors) on the cascade training approach:
	  o Development of Training Modules for different stakeholders and partners;
	  o Development of Operation Manuals/Guidelines on M&E and KM processes;
	  o Use of software for MIS and GIS required for the functioning of the MIS system;
	  o Training to M&E staff at national and sub-national levels (Training of Trainers); and
	  o Set up a cascade training mechanisms for Cluster Development Officers, Cluster Mobilizers and Business Skills Mentors and Social Mentors.

Experience & qualifications	<u>Required</u> • At least 10 years work experience with:(i) M&E Design: methods and approaches; (ii) planning and implementation of the M&E systems; (iii) Training in M&E development and implementation for different stakeholders engaged in the project; and (iv) Knowledge Management Strategy Development. • Proven experience with M&E system design and set-up for inclusive agriculture

market development programme.

- Experience with IFAD project is helpful but not essential.
- Good analytical and report writing skills.
- Excellent spoken and written English.
- Experience in the usage of computers and office software packages for data analysis and technical reports.

Preferences given to:

- Experience and familiarity with agricultural value chain projects with multi-lateral funding.

ToR: KM & Communications Specialist

Position:	**KM, M&E & Communications Specialist**
Reports to:	**Project Manager**
Supervises:	Technical backstopping on KM and Comms for all project staff, including regional hub teams.
Duty station:	PMU
Summary of role:	The KM and Communications Specialist will lead the design and delivery of the overall project KM and communication strategies and work plan.. S/he is also responsible for the professional development and coaching of the project staff on M&E/KMC. S/he will also assist the other Planning / M&E staff of the project in project M&E and planning activities.
Mode of contract:	Two year rolling contract with a probation period of six months. The contract will be extendable up to end of project based on satisfactory performance in the preceding contract assessed by the project.

Main responsibilities

- Develop and coordinate project KM and Communication strategies and annual action plans.
- Coordinate with other project staff, especially plan / M&E staff, to ensure MIS and M&E systems are appropriately designed in implemented such that they enable data-rich knowledge management.
- Manage the agenda of knowledge themes and delivery of associated knowledge products according to the agreed plans and timelines.
- Coordinate and coach the project staff at PMU and regional hub level on KM and communications.
- Facilitate Knowledge Management and Communication Platform between the regional hubs and with others projects.
- Supervise organisations or individuals contracted to implement surveys and studies required for evaluating project effects and impacts. E.g. Baseline survey, Annual Outcome Survey, etc.
- Guide and provide technical backstopping to the project staff and implementing partners to:
    - Prepare and submit the progress reports on timely manner.
    - Use different formats developed for data collection, analysis and interpretation in the MIS.
    - Undertake qualitative monitoring for ongoing evaluation of the project activities and impacts e.g. adoption of techniques introduced by the project, etc.
    - Generate, collect and store Knowledge products.
    - Use and disseminate knowledge products in the project reports and others channels.
    - Identify best practices, lessons learned and others emergent Knowledge themes.
- Capacity building:
    - Follow-up on training provided by the PMU.
    - Organize refresher training to staff and implementing partners (direct training or cascade training).
- Assist the Project Director in consolidating the project progress reports, in preparing and organizing Senior Management meetings.

- Attend Senior Management Meeting and inter-hub coordination meetings.
- Undertake regular field visits to follow-up recommendations made from previous missions and support the project implementation.
- Advise the Senior Management by identifying areas of concerns that might justify review of the project M&E system and KMC Strategy and/or implementation arrangements.

Experience & qualifications

Required

- At least 5 years work experience in the field of Knowledge Management, Communications and Monitoring and Evaluation.
- Excellent spoken and written Swazi and English.
- Good analytical and report writing skills.

Preferences given to:

- Experience with agricultural value chain projects with multi-lateral or international NGO.
- Proven experience with MIS.

Position:	**Social inclusion specialist**
Reports to:	**Cluster Development Coordinator**
Supervises:	n/a
Duty station:	PMU
Summary of role:	The main objective of the Social inclusion Specialist´s function is to manage, advise and guide all social inclusion related aspects of the programme, including targeting approach, and ensure that project associated social risks are adequately mitigated. The individual will ensure that sound practices are applied consistently as prescribed by FINCLUDE´s gender and youth mainstreaming strategy and targeting approach.
Mode of contract:	

Main responsibilities

- Guiding and overseeing community sensitization processes, ensuring that key information reaches all intended target groups, that beneficiary selection is transparent and in line with pre-defined criteria and that all target groups participate in relevant programme decision-making processes.
- Managing the effective implementation of FINCLUDE´s gender and youth strategy.
- Providing support to team members responsible for other components to ensure that strategies promote social inclusion and avoid unintended negative social consequences.
- Identify emerging opportunities to reach male and female youth and the promotion of gender equality and wider social inclusion in programme activities.
- Liaising with local stakeholders regularly to disseminate information about social risk mitigation activities considered by FINCLUDE, seek alignment and coordination of FINCLUDE with other stakeholders around programme interventions related to the fight against HIV/AIDS, promotion of food security, addressing malnutrition, gender equality, effectively targeting women and youth and inclusive participation in local governance processes.
- Manage the process of identifying service providers to implement social mentoring activities, provide oversight and support towards expected results on an ongoing basis.
- Ensure that information from the field and data generated by the project, as well as learning's captured from supervision missions, etc. are used to fine-tune project strategies.
- Participate in national level fora related to youth empowerment and gender equality so as to ensure that FINCLUDE is aligned with emerging policies and lessons learnt and actively shares best practices and lessons learnt to feed into policy development processes.
- Any other duties as may be assigned from time to time related to the project´s social performance.
- Advise in the preparation/ modification/ updating of the ToR for individual consultants, consulting firms, Govt. institutes and training providing organizations, etc.

Experience & qualifications

- University degree in sociology, anthropology, development studies or related

social science. Masters degree level preferred;
- Sound understanding of gender issues in rural development;
- At least 7 years of experience in managing or supporting the promotion of gender and social inclusion in development projects / programmes;
- Previous experience in Southern Africa, preferably in Swaziland;
- Proficient in English.

Position:	**International Trainer on Social inclusion**
Reports to:	**Sociologist**
Supervises:	n/a
Duty station:	PMU
Summary of role:	Short-term contract to provide training services on social analysis, youth and gender to FINCLUDE staff and partner agencies.
Mode of contract:	Consultancy contract
Main responsibilities	• Train a maximum of 30 participants, including PMU staff and key partners, together with a local trainer or sociologist within the team. • Production of a brief social inclusion manual for FINCLUDE (maximum 20 pages including annexes). • Production of a consultancy report (6-7 pages).
Experience & qualifications	• University degree in sociology, anthropology, development studies or related social science; • At least 3 years of experience in managing or supporting the promotion of gender and social inclusion in IFAD programmes; • Previous training experience (with IFAD preferably) around social development issues; • Previous experience in Southern / Eastern Africa; • Previous experience in Swaziland preferred; • Proficient in English.

Position:	**Local Trainer on Social Inclusion**
Reports to:	**Sociologist**
Supervises:	n/a
Duty station:	PMU
Summary of role:	Short-term contract to provide training services on social analysis, youth and gender to partners at sub-national level participating in project activities.
Mode of contract:	Two separate consultancy contracts in years 1 and 2 (preferably to the same consultant).
Main responsibilities	• Liaise with the Programme Management Unit (PMU) to agree on issues to be covered (potential list of issues to be included in training are provided below). • Provide a comprehensive but easy to grasp and practical short training on social analysis and youth and gender mainstreaming. Specific issues to be considered include: - Socio-economic analysis, poverty and targeting – basic concepts - Understanding socio-economic differences at community level in the context of a development programme; - Basic gender related concepts; - Internal and programmatic gender mainstreaming measures put in place by FINCLUDE; - Common areas of gender inequality and impact of gender blind development on programme outcomes and sustainability of benefits among targeted households; - Key policies and programmes promoting gender and social inclusion in Swaziland; - The situation and role of youth in Swaziland and need for specific targeted interventions; - Assessing social risks and challenges; - Basic information of Social Mentoring (as per Programme Design Document); • Production of a consultancy report (6-7 pages).
Experience & qualifications	• University degree in sociology, anthropology, development studies or related social science; • At least 5 years of experience in managing or supporting the promotion of gender and social inclusion in IFAD programmes; • Experience in training around social development issues; • Previous experience in similar assignments in Swaziland; • Proficient in English.

Position:	**Social Consultant to capture lessons learnt, best practices and case studies on FINCLUDE´s social inclusion strategy (national or international)**
Reports to:	**Sociologist**
Supervises:	n/a
Duty station:	PMU
Summary of role:	Short-term contract to work with FINCLUDE team to capture lessons learnt, best practices and case studies.
Mode of contract:	Three separate consultancy contracts in years 3, 4 and 5 (preferably to the same consultant).
Main responsibilities	• Liaise with the Programme Management Unit (PMU) to agree on issues to assess. • Through participatory processes at community level, interviews with key informants and review of programme documents, assess progress and performance in the implementation of FINCLUDE´s youth and gender mainstreaming strategy, to capture: - Inputs, process and results obtained; - Lessons learnt; - Best practices; - Identify at least 6 case studies that exemplify the impacts on specific individuals or target groups; • Produce at least 6 technical briefs over the course of three years presenting (length 2 - 4 pages). • Production of a consultancy report (6-7 pages). The assignment should be timed so that the technical briefs are available and printed for yearly workshops to be hosted by the project on youth and gender mainstreaming.
Experience & qualifications	• University degree in sociology, anthropology, development studies or other relevant fields; • At least 3 years of experience in managing or supporting the promotion of gender and social inclusion preferably in IFAD-supported projects; • Experience in documenting programme implementation experience around gender and youth mainstreaming; • Previous experience in Southern Africa is highly desirable; • Proficient in English.

Position:	**Senior social consultant for short qualitative studies (national or international consultant)**
Reports to:	**Sociologist**
Supervises:	n/a
Duty station:	PMU
Summary of role:	Work with FINCLUDE team to carry out two brief qualitative studies to better understand social issues associated with project activities with the aim of improving project strategies and effectiveness.
Mode of contract:	Two separate consultancy contracts in years 3 and 4 (as required).
Main responsibilities	For each assignment: • Liaise with the Programme Management Unit (PMU) to agree on the key issues that need to be better understood by project staff. Each study will focus on one key issue; • Develop inception report for the research assignment (5 pages), including methodology, ethical research principles for qualitative inquiry guiding the assignment, and proposed report structure; • Carry out research assignment with the logistical support and with the participation of relevant FINCLUDE team members; • Present preliminary findings to FINCLUDE team for clearance; • Present preliminary findings to relevant FINCLUDE stakeholders for validation in a half day workshop; • Produce draft consultancy report (maximum of 20 pages) for comments and final report.
Experience & qualifications	• University degree in sociology, anthropology, development studies or other relevant fields; • At least 7 years of experience in qualitative research in the areas of gender and social inclusion in the context of development programmes; • Previous experience in Southern Africa is highly desirable; • Proficient in English.

Position: **Senior consultant to produce FINCLUDE´s Social Mentoring Manual (international / regional)**

Reports to: **Sociologist**

Supervises: n/a

Duty station: PMU

Summary of role: Produce (yr 1) and review (end of yr 2 - after rapid participatory assessment) of a Social Mentoring Manual for FINCLUDE strongly based on the Gender Action Learning System (GALS); provide brief training to a core national level group (max. 12 people) on FINCLUDE´s Social Mentoring Programme.

Mode of contract: Two separate consultancy contracts in years 1 and 2 (preferably to the same consultant).

Main responsibilities

YEAR 1:

- Based on guidance provided in FINCLUDE´s Programme Design Report and a rapid assessment at local level, produce and test the project´s Social Mentoring Manual, which should incorporate the following topics:
  - Key issues to enable target households to develop household plans and better utilize existing resources and opportunities;
  - Assess causes for and facilitate the process of avoiding the potential increase of household tensions with increased income flows in households where both husband and wife are present;
  - Facilitate information in relation to HIV and AIDS and facilitate discussions and decision-making to reduce the transmission of HIV and generate demand for existing community and clinical HIV care and treatment services;
  - Limited access to land and limited tenure security among male and female youth and women;
  - Limited interest in youth to engage in agricultural production, as it is associated with poverty;
  - Increased risk of HIV acquisition by young women; need to increase health seeking behaviour among HIV positive pregnant women, youth and men and increase quantity and accuracy of information related to HIV prevention and clinical and community services available close to the community;
  - Food insecurity and malnutrition associated with lack of production of food for consumption by participating households and an increase in food prices.

  The contents of the Social Mentoring Manual will be strongly based on best practices and lessons learnt from the use of GALS in IFAD supported projects, and Stepping Stones, a participatory approach used in HIV programmes. The manual will be specifically produced for FINCLUDE and the reality of rural communities in Swaziland.

  The Manual will include chapters to be used for: (i) community leaders for buy in; (ii) group level (targeting beneficiaries organized in groups as per programme design document; and (iii) household level – for beneficiaries living with their spouse.

- Train PMU and other relevant players at national level on the use of the methodology.

YEAR 2:

	• After implementing a first cycle of Social Mentoring among FINCLUDE beneficiaries, the consultant will lead a participatory assessment of progress and performance made in the use of the methodology, identify needs and provide refresher training to core national group. • Update (as required) the Social Mentoring Manual and a work plan for the continuation of Social Mentoring activities.
Experience & qualifications	• University degree in sociology, anthropology, development studies or other relevant fields will be advantageous; • At least 3 years of experience in the use of GALS (as well as other participatory methodologies); • Understanding or HIV programing; • Previous experience in Southern Africa is highly desirable; • Proficient in English.

F. Terms of Reference –Draft - Agricultural Insurance Feasibility Study

<u>1) Background on the project/programme</u>

The project/programme

1. FINCLUDE's Goal is the: "Improvement in prosperity and resilience of Swazi smallholders and micro-entrepreneurs through increasingly profitable and resilient links to markets and appropriate financial services."

2. The Development Objective is: "To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through efficient public and private sector investment." This will be measured against the targets of: 6,750 beneficiaries' achieving annual return on labour in farming or non-farm enterprises of >120% of unskilled wage rate.

3. FINCLUDE will have a strong focus on women and youth with specific measures to target youth (men and women) and ensure their major and active participation in the project. This is fully reflected in the project's targeting, gender and youth strategy proposed. Given the prevalence of migration and its corollary, the sending or reception of remittances among rural population and in response to their seeking of opportunities, migrant households will be targeted through specific measures to be included in the core activities of the project.

4. Commodities: the project will initially focus on five commodities selected based on the selection criteria defined in the PDR. The selection will be re-confirmed as part of the project pre-launch preparation activities through the cluster mapping and validation process to be completed, and any changes to the chosen commodities agreed between GoS and IFAD. Additional commodities and cluster may be developed in the future subject to demonstrated project capacity and available resources. The five initial commodities will be: among livestock: 1) red meat (beef/goat), 2) poultry, 3) pigs, and among crops: 4) vegetables (conventional/baby) and 5) legume seeds.

5. The expected Outcomes are:

(a) Outcome 1 Profits to farm and non-farm household enterprises and MSME from inclusive clusters increased for multiple higher value products;

(b) Outcome 2 Private investment increased in priority clusters and commodity sectors from smallholders and MSME;

(c) Outcome 3 Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives;

(d) Outcome 4 Climate resilience and climate finance mainstreamed into rural finance operations.

The International Fund for Agricultural Development

6. The International Fund for Agricultural Development (IFAD) is a specialized United Nations agency and International Financial Institution that supports developing country governments across five regions in rural and agricultural development. It does this via concessional loans and grants to fund programmes and projects, and accompanying technical and management services along the design and implementation cycle. Its goal is to enable poor rural people to overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods. The Fund's three strategic objectives are to:

(a) Increase poor rural people's productive capacities;

(b) Increase poor rural people's benefits from market participation; and

(c) Strengthen the environmental sustainability and climate resilience of poor people's economic activities.

7. IFAD-financed interventions work at macro, meso, and micro levels to improve the lives of smallholder farmers and poor rural households, reducing their vulnerability, improving food security, and increasing their income generating potential. The areas of activity in its financed activities include access to natural resources, inclusive financial services, agricultural technology and production services, rural producers' organizations, climate change and diversified rural enterprise and employment opportunities. Programmes are implemented by the government, and together with civil society organizations, agricultural research centres, NGOs, and the private sector.

8. IFAD follows five principles of engagement in its financed operations:

(a) **Targeting.** IFAD targets poor people living in rural areas, including those from marginalized groups, in particular women.

(b) **Empowerment.** IFAD has long recognized the critical importance of social and economic empowerment of rural people living in poverty, both individually and collectively. A key element of its approach is to build the capacity of grassroots institutions and promote better governance, policies and institutions for rural development.

(c) **Gender equality.** IFAD is committed to gender equality. To enable rural women and men to have an equal opportunity to participate in, and benefit from the activities that IFAD finances, it promotes economic empowerment.

(d) **Innovation, learning and scaling up.** Part of IFAD's role is to focus on innovation, learning from that innovation, and scaling-up successes for expanded and sustainable impact.

(e) **Partnerships.** IFAD engages with a broad range of partners: Member States, development institutions, farmers' organizations, the private sector, foundations, and other relevant national and international stakeholders.

2) Objectives of the study

9. The goal of the study is to inform the government of an agricultural insurance strategy (e.g. index-based insurance) which can improve risk management within FINCLUDE, reducing the vulnerability of smallholders and rural MSMEs, and consequently the credit risk of financial institutions.

10. The specific objective of the feasibility study is to reach a conclusion as to whether agricultural insurance is feasible for the target group engaged in the identified VCs and to support the broader GOS's rural and agricultural development strategy in the programme/project.

11. The outcomes of the study should be: i. Conclusion on whether there is a need for agricultural insurance for the target group(s); ii. If there is a need, conclusion on whether it is feasible; iii. Recommendations for possible existing/new products; iv. Recommendations for possible scheme design and operation; v. If agricultural insurance is not currently feasible, then recommendations for what is needed to advance the market or what could be possible alternative mechanisms.

12. Any feasibility study should consider what would be required to not only meet the needs identified in the project/programme, but also what would help support any initiative that may be implemented as a result of the study to go beyond project/programme end, and to reach scalability and sustainability of the agricultural market in Swaziland. Therefore, the needs and interest of insurers and their related partners such as insurance intermediaries; delivery channels and aggregators, such as financial service providers, value chain actors, mobile telephone operators; the low-income market, as individuals or in groups such as producer cooperatives; and of policy makers and donors like IFAD, should all be considered.

3) Scope of work

13. The study will focus on the supply and demand opportunities and constraints relative to introducing agricultural insurance for the target group(s) in the project/programme. Whilst it will

consider the state-of-the-art in agricultural insurance internationally and the overall agricultural insurance context in Swaziland, it should have a specific focus on the feasibility of agricultural insurance for the target group(s), partners (e.g. delivery channels, aggregators), value chains (crops and which ones and/or livestock), and geographical areas, within the programme/project.

14. The feasibility study will identify the technical, operational, financial and institutional challenges and possible solutions for development of a sustainable model for agricultural insurance; a review of the institutional issues and options for agricultural insurance including the potential roles for public and private sectors. The needs, gaps, as well as roles and responsibilities of public and private actors at micro, meso, and macro levels should be examined.

15. The study should analyse:

(a) Agricultural characteristics, including:

- Risks: main production risks and constraints within the relevant value chain(s), relevant geographical areas, and amongst target groups/partners of the project/programme, including an analysis of loss years.
- Production characteristics: to determine types of crops, average yields, and their differing exposure to predominant risks.

(b) Demand and need, including:

(i) The needs/demand of different target group(s) and partners: such as farmers and their cooperatives, financial service providers, value chain actors like input suppliers, buyers, etc.

(ii) Financial inclusion: shocks preventing access to finance and productive investment; default issues which could be mitigated with insurance.

(iii) Income characteristics of the target group(s)/value chain(s) and any links to markets, etc.

(c) Supply side, including:

(i) Intermediaries and distribution channels: the links different intermediaries/ distribution channels have with the target group and potential interest and capacity in playing a role in insurance scheme delivery; possible opportunities for bundling of insurance with other services.

(ii) Government: relevant enabling/restrictive policies; legal and regulatory frameworks; roles of the government and possible gaps, including data management and provision in the case of index insurance.

(iii) Development initiatives: other relevant existing or upcoming development initiatives.

(d) Data availability and quality, including:

(i) Ground weather and yield data availability for the appropriate time series, value chains, geographical areas and level of disaggregation. Possible satellite data and remote sensing service providers.

(ii) If suitable data is available, conduct an initial risk assessment for crops/livestock.

16. The focus of the feasibility study should be the constraints and opportunities relevant to possible introduction of agricultural insurance within the project/programme. A basic outline which could be considered for the feasibility study is as follows:

(a) Chapter 1. Country background:

(i) Agricultural profile in the country and relevant to the project/programme.

(ii) Exposure of relevant agriculture to natural and climatic hazards.

(iii) Government policy for agricultural development.

(iv) Agricultural finance and insurance.

(b) Chapter 2. Agricultural risk assessment:

(i) Framework for agricultural risk assessment and data requirements.

(ii) Agricultural production systems in the country.

(iii) Overview of natural and climatic risk exposures to agriculture in the country.

(iv) Impact of risks in particular value chains of focus and on different target group(s) and programme partners (financial institutions, value chain partners).

(v) Estimated value of losses due to natural and climatic perils.

(vi) Livestock risk assessment (if relevant).

(vii) Conclusions on crop and livestock risk assessment.

(c) Chapter 3. Agricultural insurance opportunities and challenges in the country:

(i) Role of agricultural insurance and demand and supply of agricultural insurance.

(ii) Types of agricultural crop insurance products.

(iii) Opportunities for different types of products and at different levels.

(iv) Summary of key issues and challenges for agricultural insurance product development.

(v) Ground and satellite data and infrastructure.

(d) Chapter 4. Institutional, operational and financial considerations for agricultural insurance:

(i) The insurance market in the country.

(ii) Relevant International experience with agricultural insurance.

(iii) Institutional framework for agricultural insurance in the country.

(iv) Operational considerations for the country.

(v) Financial and reinsurance considerations.

(vi) Role of government, including legal and regulatory framework for agricultural insurance.

(vii) Relevant primary insurance companies and insurance intermediaries.

(viii) Intermediaries, delivery channels, and aggregators.

(e) Chapter 5. Conclusions and recommendations/next steps:

(i) Conclusions.

(ii) Recommendations/next steps.

4. Study methodology

17. The feasibility study should be comprised of desk research; field visits to conduct: focus groups within the project/programme area, interviews relevant stakeholders and implementing partners, and project/programme staff; and meetings including with relevant government and IFAD staff.

18. Information should be collected from both stakeholders and beneficiaries.

19. Field visits, interviews and meetings should be conducted after prior consultation and upon further advice from the IFAD country office and the Programme Management Unit.

5. Deliverables and timeframe

- Study outline and mission ToR;
- Draft feasibility study;
- Presentation at an in-country stakeholder consultation workshop;
- Final feasibility study incorporating comments and feedback.

20. The approximate timeframe for the feasibility study is 2 months, which includes in-country visits for both fact-finding and the stakeholder consultation workshop.

6. Profile/requirements

21. The feasibility study should be conducted by a specialized agency or a team of qualified experts.

22. The lead consultant should be an agricultural insurance specialist, and the team should further be composed of relevant expertise which should include some of the following specialisms: disaster risk management, agricultural insurance, rural development, climate change adaptation, rural finance, actuarial analysis.

Appendix 6: Planning, M&E and learning and knowledge management

Overview – becoming a data rich, learning organization

1. FINCLUDE aspires to be a data rich project and a benchmark for others to follow in its evidence-based knowledge management by adopting a number of innovative techniques to dramatically improve the cost efficiency, speed and quality of data collection and analysis and the use of this analysis to drive project decisions and performance and inform evidence-based policy analysis and development processes.

2. FINCLUDE must also be a learning project – in that it not only sets out to have a direct impact on beneficiaries but also to test, refine and combine several different approaches and techniques to deliver real and lasting change – for example: peer to peer business skills and social mentoring; inclusive cluster development; investment mentoring; loan demand aggregation to link farm/non-farm micro entrepreneurs to banks. It must learn from itself and others experiences and have the capacity to rapidly identify what is working well, why and then replicate this across its work. For example, some clusters may develop faster while others may struggle – it will be important firstly to acknowledge these differences and then use the evidence available to start to understand why this happening and more importantly how to take the best practice and make it the norm across the project.

3. In doing so, FINCLUDE must be willing to try and evaluate new innovative approaches (whether important operational details of field practice or big ideas). It must be willing to acknowledge where these have not worked as well as where they have.

4. In this regard, it is vitally important that the demand for relevant, reliable and timely data and insights comes from the very highest levels of the FINCLUDE leadership, especially within CFI and its parent Ministry. If there is clear and unequivocal demand for excellent, actionable M&E data and analysis from the senior leadership then all managers and project teams will place a high value on both gathering and using the data.

5. A key focus for the M&E will be to build a highly effective and efficient system that provides timely and reliable information for result-based management and decision-making on developments in each of the priority clusters and commodities so that the intervention plans can be managed for impacts.

6. The foundation of building FINCLUDE into a learning project are two-folds:

   (a) Firstly, FINCLUDE must establish a 'best in class' M&E and MIS system – that is highly cost efficient and collects reliable, relevant and timely data which is routinely analysed and used to guide operational management decisions in the project.

   (b) Secondly, FINCLUDE must design and deliver a highly organized and purposeful knowledge management plan that has clearly defined knowledge topics it focused on and an organized and well resource system for developing evidence rich knowledge products tailored to the topic and intended audiences.

7. Two core principles in the design of the approach underpinning the FINCLUDE M&E system is that:

   (a) Information has value but also has costs in its collection, analysis and distribution. FINCLUDE should seek to maximize the value of the information gathered, including to those individuals and business who provide it, as well as limiting the costs associated with collection, analysis and distribution. In managing costs, this mean FINCLUDE should only collect what it needs, not what is possible, and do so in a deliberately cost and time efficient way using modern tools to do so.

(b) All data gathered from individual or household enterprises or MSME should be data which is valuable to the individual or enterprise to collect for themselves so they can make better informed decisions. They should therefore be happy to collect such information for their own benefit if provided with the knowledge and tools to make it easy to do so. This applies equally to farm/non-farm enterprise financial performance and production data but also elements of producer group capacity and maturity if the groups can see that this provides them a roadmap to continue their own self-development. For data collected from buyers and suppliers, the data requested should be data which should business should have readily to hand – basic data on volumes, prices, timing, origin or destination of sales and purchases.

8. The corollary of these principles is that the project should keep to an absolute minimum the data to be collected which is not of direct use to project beneficiaries but only to donors or government for other purposes.

Planning

9. Planning processes and schedules within FINCLUDE will be harmonized with the mainstream planning process of CFI and MoF as much as possible.

10. **Annual Work Plan and Budget (AWPB):** During the final quarter of each financial year, the PMU will prepare the AWPB for the following year. This process should begin with a thorough, evidence- based performance review of the previous period and project to date, especially in reference to progress in achieving the project Development Objectives and Outcomes – as summarized in the Logical Framework.

11. The AWPB will then be prepared by consolidating, from Component 1: (1) the plans for each cluster / commodity industry (driven by the priorities emerging from the ongoing MCMs), (2) planned business skills, social mentoring and producer group coaching activities. (3) plans for investments under the SDF; and from Component 2: (1) activities on the various database and information platforms being development, (2) specific plans associated with each of the FI partnerships, (3) expected release of tranches to the FIRM, and (4) planned capacity building activities in the sector.

12. The AWPB will be submitted by the Project Director and approved by MoF and then submitted to IFAD for 'no objections' approval no later than 60 days prior to the start of the financial year.

M&E

13. **Setting-up of the M&E system**. Once the project staff is on board, the PMU will prepare an M&E Plan for approval by the PD that will encompass:

(a) Preparation of an M&E matrix summarize how all indicators will be collected, by who and at what frequencies;

(b) Procedures and tools for data collection, entry and analysis;

(c) Indicate how the indicators should be measured;

(d) Establish flow of communication and reporting along with timelines;

(e) Assess the capacity of staff -M&E and others- in undertaking M&E responsibilities;

(f) Develop staff capacity building needs assessment.

14. **Design of the M&E system**. The PMU, with the assistance of the M&E Technical Assistance, will:

(a) Finalize the M&E Processes that integrates three tools: IFAD's updated RIMS/ Operational Results Management System (ORMS), project Log Frame and principles of the Donor Committee for Enterprise Development Standard[157] (DCED Standard) (e.g. Result chain). The M&E system will include the use of regularly updated results chains and M&E frameworks for each priority cluster/industry to compliment the overall "ORMS" M&E and project logframe. The use of results chains for each cluster and wider commodity industry will enable the identification and tracking of relevant intermediate change indicators for each. They will also be a powerful tool for communication among cluster and industry stakeholders to develop shared understanding of the opportunities, bottlenecks and inter-dependence of different actions and investments.

(b) Develop various tools for data collection, entry and analysis:

(i) Household tracking data will be an integral part of the pro-active management of the project to ensure that specific intervention, especially in terms of improved production and post-harvest technologies and social mentoring activities at the household or village level are being effective.

(ii) Cluster and industry tracking data is intended to monitor the overall performance and emerging issues in the local clusters targeted by the project and the wider commodity industry. These data will be collected at least once per season and more frequently as needed (e.g. for price data). Primary data is collected suing buyer/supplier tracking survey tools and supplemented by standard secondary data from regular data sources.

(iii) Loan and investment tracking data for households and MSME.

(iv) Producer group tracking and graduation data.

(c) Develop the format of "rolling baselines" in which baseline data on each cluster is collected at the time that interventions begin in each cluster areas. This will include both household surveys and trader/business surveys as well as reference to secondary data sources.

(d) Design of a Management Information System (MIS). ITC will play an important part in improving the efficiency, reliability and performance of the M&E of FINCLUDE. It is expected that the project will develop a suitable MIS system that will include an online web based hosted in the PMU and offline tablet-based direct data entry in the field.

(e) Ensure the FM and accounting systems are able to tag all expenditures by commodity/ cluster / district and type of activity to allow later segmented analysis of the costs and benefits for the different clusters, commodities and locations.

(f) Staff capacity building. Training is crucial to enable an effective implementation of the M&E system. Experience showed that others staff other than M&E staff should benefit from the training. As such, in FINCLUDE, staff of the Cluster Development and Social mobilizers teams should benefit from this training.

15. The "rolling baseline" surveys of clusters and other surveys of households and businesses will be sub-contracted to an external service provided to improve quality and consistency.

Cluster Tracking Survey

16. Cluster Tracking Surveys will be conducted regularly in each active cluster. They will provide a detailed overview of the status of activity and activities in the cluster. By tracking clusters regularly over time, it is possible to identify changes and patterns emerging.

[157] http://www.enterprise-development.org/measuring-results-the-dced-standard/

17. Cluster tracking surveys will form a main component of the cluster rolling baseline as will function as the main annual outcomes and performance tracking instrument for the project. Data for the cluster tracking surveys will come from multiple independent sources providing scope for triangulation of data to increase confidence levels including:

(a) Individual & household data tracking;

(b) Buyers and supplier data tracking;

(c) Standard secondary sources.

18. Each of these is summarized below.

Individual & household data tracking

19. FINCLUDE's primary focus in engaging with individuals or households is around their farm or non-farm micro-enterprise. Data therefore needs to be collected at this micro-enterprise level as well as the more common household level. In practice for FINCLUDE, there may be more than one micro-enterprise in each household facilitated by the project – a young women may start a chicken hatching enterprise while her brother may start a barber shop. As FINCLUDE does not provide grant subsidies, this multiple engagement within a household does not raises issues of equality in distribution of resources. In fact, this diversity is to be encouraged as it provides resilience and vigour in the local economy and genuine empowerment, especially to young entrepreneurs.

20. Household level tracking is prohibitively expensive if done as an external M&E activity.

21. Individual and household enterprise level data tracking on a seasonal basis will be embedded into the everyday operation of the project – as it is prohibitively expensive if it is conducted as an external M&E exercise. This will be done through the two trained peer mentors that are chosen by every group – the Business Skills Mentor and the Social Mentor. FINCLUDE will build on the experience of IFAD's and the Government of Nepal's High Value Agriculture Project[158] (HVAP) in hills and mountainous areas and mainstream household tracking as part of the self-learning process for supported farm and non-farm household enterprises and producer groups. This will be achieved through the business skills training activities and follow-up which will encourage the majority of project supported households to maintain household record books of their farm / non-farm enterprises. The experience from HVAP is that the individuals and households themselves place a very high value on the insights they gain from their own enterprise records and a large majority are keen to keep their records books up to date once they are given the skills and support to do so.

22. All households participating in project supported groups will be given a unique identifier in the MIS so that activities and results can be tracked back to the household. This is critical in allowing for future in-depth segmentation, triangulation and analysis of results.

23. Farm & non-farm enterprise diaries – for the main commodities supported by the project, all households participating in the business skills training will be provided with pre-printed blank farm enterprise diaries for their chosen farm enterprise (e.g. vegetables, chicken, cattle). Households will be actively supported to keep these records up-to-date by the business skills mentors and others in their group, primarily for their own benefit so they can better understand the cost, income and profit they are making. It also helps them enter negotiations with buyers and suppliers with a better understanding of their costs and margins. Non-farm enterprises will be supported to keep similar enterprise diaries suited to their own enterprises. For the most common non-farm enterprises, (e.g. tailoring, salons) pre-printed enterprise diaries will also be prepared and shared as part of the business skill training for interested individuals.

24. Simple baseline data on the household's production and farm/non-farm enterprise will be recorded in enterprise diaries as part of the business skills training, so individuals and households

[158] http://www.hvap.gov.np/index.php

have a clear record of their own starting position against which to compare progress over time. These simple farm/non-farm enterprise baselines data will be entered into the MIS system by the BSM using their tablets as outlined below. This will form part of the cluster baseline.

25. Seasonal review meetings within each producer group to review individual and collective results from the season and discuss opportunities to improve for the next season will be facilitated by the group leaders and Business Skills Mentors. As part of these group review meetings, the BSM will collect key information from the enterprise diaries for each household and enter the data into the FINCLUDE data entry forms installed on their project tablets using the household unique ID.

26. A similar process will be followed with non-farm enterprise that will meet every six months to review performance, update enterprise diaries, share experience and for the data to be transferred into the project MIS by the BSM.

27. Household enterprise investment and financing data will also be recorded when households have made investments. These data will be recorded in the enterprise diaries as well as entered into the FINCLUDE MIS. This will also record basic data on the sources of financing and any loans obtained. These data will be cross referenced with loan data provided by the FIs, either at cluster, group or household level – depending on agreed data protection and privacy policies.

28. Social mentoring data will also be gathered through a similar system with data entered by the Social Mentors into the tablet-based forms taken from social mentoring records for each group.

Buyer and supplier tracking data

29. Regularly updated buyer and supplier tracking data is the second major sources of data needed by the project as part of its rolling cluster baselines and then annual cluster tracking surveys. These data allow all the stakeholder to get a better overview of the scale and dynamics happening in the local cluster. It provides a second independent source of data which can be used to triangulate the date gather through the individual/household tracking process above (e.g. on prices and volumes).

30. Simple buyer/supplier surveys will be conducted seasonally by the CDO's themselves using simple short standard tracking survey instruments focussed only on data that the buyers and suppliers should have readily available (e.g. basic data on volumes, prices, timing, origin or destination of sales and purchases).

31. Buyers and suppliers will be expected to share these headline data on a "quid pro quo" basis in exchange for being able to participate in cluster development activities, including the MCM and B2B processes.

32. Data entry will also use tablet/laptop based forms, in a similar process to that used for the individual/household data.

Group tracking and graduation data

33. Group tracking data are primarily of interest in relation the maturity and capacity of the group. This is important so the group themselves as well as the project can see how they are progress on critical aspects of their capacity that are necessary for them to graduate to being fully independent and self-sustaining actors in their local cluster – to the benefit of their members.

34. This will be done through two mechanisms:

(a) Self-assessment tools and checklists in which the groups will be trained should be periodically reviewed and updated by the group – typically twice per year. Once updated, these data will then be entered into the relevant group tracking forms of the MIS by the peer mentors;

(b) The self-assessment data will be verified in the field by the Social Mobilizer and CDO during their routine coaching of the groups.

Secondary reference data sources

35. The third source of data used in the cluster baselines and annual tracking survey are for reference market information which will be regularly uploaded into the FINCLUDE MIS from the following sources:

(a) Local market prices – via forthcoming Namboard system supported by EU;

(b) Regional prices – Johannesburg market data;

(c) Export/import prices and volumes – Customs department.

Data entry and cleaning

36. Business Skills Mentors and Social Mentors, collectively referred to as 'peer mentors', will be provided with GSM-enabled tablet computers with project MIS data entry forms and tools installed. They will be provided with a data allowance and paid a small fee (possibly via mobile money) for data collection and entry into the MIS.

37. All of the FINCLUDE Cluster Development Team staff will also be provided with these tablet computers and trained fully in their use (ToT) by the PMU M&E team. The Cluster Mobilisers and Social Mentoring Supervisors will, in turn, train and coach the peer mentors in the proper use of the FINCLUDE MIS data entry tools.

38. Tablet-based data entry forms will be geo-referenced and will include data screening and built-in data validation prompts to reduce data entry errors at source. Data entry will be able to be done either off-line or with live connection to the internet via mobile networks. Data will then be sent automatically from the tablets to the centralized MIS database once a network connection is next established.

39. Data received at the central MIS will first be received in a 'sheep dip' computer where they can be re-verified as a second stage security and quality control before it is cleared for upload into the main MIS database. Where records are received from BSMs / SMs with errors or apparently anomalies, the relevant BSM / SM will be required to recheck and resubmit the data. Only when the records are cleared and accepted into the central MIS will their payments for data collection be released.

40. Timely data collection and entry will be a Key Performance Indicator for responsible project staff.

Rural finance data

41. Other financial service databases will also be developed or accessible under Component 2 (see Appendix 5 for details):

(a) Supply and demand for rural credit database;

(b) Credit monitoring tool;

(c) Data on loans extended by new MFI, recorded from their new MFI banking system;

(d) Data on loans extended by banks and other FIs that are shared by these FI from their own systems for the project for cross reference.

42. The FINCLUDE M&E framework will need to clearly define how these various data sets are used in conjunction with each other and the other FINCLUDE data set to provide actionable management information for FINCLUDE project team and partners.

Reporting

43. **Progress Reports.** The physical and financial progress reporting will be tied to the AWPB targets. The progress reports will compare actual achievements against those planned, including expenditures, and explaining variations between the two.

44. The semi-annual physical progress will be recorded in terms of quantitative outputs, activities and inputs, presented in tabular spreadsheet forms. The consolidated progress report will identify the constraints to implementation and corrective actions that have been taken. The progress report will also describe the number of beneficiaries, disaggregated by sex including the type of activities they have participated in. Those progress reports will serve as knowledge products.

45. The semi-annual progress reports will routinely report on progress towards achieving all logframe indicators. Annual progress reports will also make forward projections of expected levels of achievement on each of these indicators annualised over the remaining years of the project. This exercise is intended to provide a regular opportunity for project leadership to focus on results, assess progress towards achieving the Development Objectives and on Key Performance Indicators and decide on actions and priorities to ensure the project remains on track.

46. The main functions of progress reports will be:

(a) Review current progress compared to planned activities, and expenditure compared to budget;

(b) Provide overall status information on the project since it started, in terms of physical progress and total expenditure;

(c) Identify problems during the reporting period and steps to solve these problems;

(d) Analyse strengths and weaknesses, opportunities and threats;

(e) Discuss quantitative and qualitative progress made in achieving overall objectives;

(f) Update forward projections of expected year by year achievements against all logframe indicators for the remaining years of the project; and

(g) Provide strategic direction for the next planning cycle.

Learning, Knowledge Management and Communication

47. FINCLUDE is part of a new generation of IFAD-supported projects dealing with inclusive market development and the first of its kind in Swaziland. It is therefore explicitly intended to generate practical knowledge of what works (and what does not work), how to apply the successful approaches and to improve the capacity of various stakeholders. Effective and efficient learning, knowledge management and communication are therefore central to FINCLUDE's longer-term objectives.

48. A Knowledge Management and Communications (KMC) strategy will be developed and integrated into the management of FINCLUDE. It will play a large part in ensuring the project achieves its outcomes. The KMC Strategy will be coordinated by the PMU via the CFI Information and Research officer.

49. FINCLUDE's knowledge management activities will be organized around a small number of clearly defined knowledge themes. Knowledge themes will serve two broad audiences:

(a) Private actors (farmers, producer groups, MSME, FIs) engaged in the supported clusters and commodity industry and support market.

(b) Public actors who support the development of the above industries, especially government and donors who finance major public investment programmes.

50. Private sector knowledge themes of greatest use to the private actors will be developed in consultation with them during the first year of the project as clusters are mobilized. Example may include:

(a) Rural Finance market intelligence and insights;

(b) Modern agriculture for smallholder – current technologies and practices;

(c) Emerging market opportunities and dynamics in high value agriculture.

51. Public sector knowledge themes considered to be likely of immediate interest to senior leaders in GoS and project parties at national and sub national level include:

(a) Practical tools and techniques for real-world market linkage facilitation, including the relatives roles of government, privates sector and other stakeholders;

(b) The evolving role of government in private sector service market development;

(c) Practical tools and approaches to incorporate considerations of inclusiveness and climate resilience into market-oriented agricultural development;

(d) Rural cluster development practice – how to do it;

(e) Peer to peer processes – potentials and limitations;

(f) Linking financing and inclusive cluster development;

(g) Creating data rich environments for more efficient public and private investment;

(h) Service market development if competitive smallholder-based agricultural clusters;

(i) Benchmarking the cost effectiveness of alternative approaches to agriculture sector development – comparing FINCLUDE's private investment led approach with other subsidy and grant led support programmes.

52. The Public Sector Knowledge themes could be broadly grouped into three categories:

(a) Policy. FINCLUDE will invest in good quality, evidence-based knowledge management in order to contribute to policy development processes. FINCLUDE also seeks to strengthen institutional capacity related to specific elements of its approach - for example in policy-based financing for sector development as well as trade research and facilitation. In this context, FINCLUDE will support targeted institutional strengthening activities in specific areas. The KMC strategy will ensure that evidence-based policy analysis reaches key decision makers in digestible form, while also facilitating broad engagement of stakeholders in associated policy dialogue.

(b) Management. The KMC strategy will ensure efficient sharing of knowledge within the project teams and among the participants of the priority value chains, especially via the MCMs. The management level will decide to further expand beyond e.g. Develop a Learning and Knowledge Management Platform with others projects.

(c) Implementation. The strategy assists in building ownership, sharing information and facilitating the change in attitudes and behaviour that are needed to drive inclusive VC growth.

53. Process and roles and responsibilities. The Strategy should indicate:

(a) The process of Learning and KMC as how to include the knowledge products into the project reporting system as well how to disseminate them.

(b) Roles and responsibilities of concerned staff.

54. Use and dissemination of the knowledge products.

(a) National level. FINCLUDE, apart from the project reporting system, may consider the use of the official website of line ministries and institutions, members of the Project Steering Committee.

(b) Sub-National level:

(i) Farmers-to-Farmers.
(ii) MCMs.
(iii) District level. Under the authorities of the District authorities.
(iv) Chief leadership structure and Chiefdom Development Committee.

55. Training and Capacity Building is pivotal in ensuring an effective implementation of the KMC Strategy. The PMU with the assistance of the project Technical Assistance should provide training to the project staff at national and provincial level to enable them to:

(a) Generate, collect, use, disseminate and store the Knowledge products on timely manner.
(b) Master tools and formats introduced.
(c) Applications and software introduced by the project e.g. Facebook, Whatsapp, Agribuddy, GIS.

Appendix 7: Financial management and disbursement arrangements

Summary of Financial Management arrangements

1. A Financial Management Assessment (FMA) has been undertaken at FINCLUDE design in accordance with IFAD requirements and Financial Management Division (FMD) guidelines on financial management assessment at design. The assessment is based on a review of operations of Centre for Financial Inclusion (CFI), previously the Micro Finance Unit (MFU) that has been designated by the Ministry of Finance (MoF) the Lead Project Agency. CFI is a semi-autonomous public institution established under the MoF.

2. CFI has been the LPA for the IFAD financed Rural Finance Enterprise Development Programme (RFEDP) whose closing date was 31 March 2017. CFI does not have any other projects it is implementing at the moment. Lessons have also been drawn from the operations of Smallholder Market-Led Production/Climate Smart Agriculture and Resilient Livelihoods Project (SMLP/CSARL) to put the assessment in the country portfolio context. The assessment, with application of mitigating measures has returned a medium risk.

3. The major fiduciary lessons learned from operations of RFEDP and SMLP/CSARL have been: applications of properly coded stand-alone, off the shelf accounting systems ease accounting and financial management; qualified and experienced financial management staff, together with a strong project manager is essential for successful implantation; and SMLP/CSARL experienced start up delays arising out of delays in ratification of the financing agreement, delays in meeting disbursement conditions and slow recruitment processes. These lessons have been taken into consideration in the design of financial management arrangements of FINCLUDE.

Summary of strengths and weaknesses of the proposed FM arrangements

4. Summarised below are the key strengths and weaknesses on the basis of which financial management arrangements have been designed.

Strengths:

(a) CFI's mandate is to facilitate access to financial services for micro-entrepreneurs and the un-banked population through creating an enabling environment for the sector. The Unit plays a facilitative role through its engagement with the financial regulators, policy-makers and the financial sector in the implementation of the country's National Financial Inclusion Agenda;

(b) CFI has experience with IFAD financial management requirements having implemented RFEDP whose overall financial management through implementation has been rated satisfactory;

(c) The Sun System accounting software used by CFI has strong controls inbuilt in the system including budget control and an M&E module that facilitates linkage of financial progress to physical progress;

(d) The operations of CFI are designed with specific staff dedicated to the project operations. This should facilitate timely implementation and reporting; and

(e) A private audit firm has been conducting the statutory audit of CFI. The quality of audit has been rated as highly satisfactory. This arrangement will continue and should mitigate against delays that may arise out of change of audit from private to the Auditor General.

Weaknesses:

(a) CFI currently has a lean structure with no in-house skills in crop and livestock supply chains that have been proposed under the new project;

(b) There is no segregation of duties in handling financial management and procurement needs of the project;

(c) Financial management and internal control oversight under RFEDP was limited to project management. There were no independent checks provided by the MoF; and

(d) Taking lessons from SLMP/SCARL, recruitment processes in Swaziland take too long; these delays could negatively affect implementation.

5. Capacity constraints to be addressed and operating changes to be made.

(a) The major capacity gaps to address will be to fill the skill gaps currently unavailable at CFI and to capacitate them to understand IFAD project implementation requirements; and

(b) There will need to implement internal audit arrangements. Internal audit arrangements within MoF will be used to cover the activities is of FINCLUDE to provide assurance on internal controls of the project. Internal audit will cover the project at least once in a year with results of the audit or implementation action plan and status of implementation of results shared with IFAD as part of the annual reporting requirements. The Director, Internal Audit, a department that is being delinked from the MoF to enhance independence of internal audit has expressed interest to provide internal audit services to the project.

6. Swaziland's inherent risk is medium as measured by Transparency International's (TI) Corruption Perceptions Index (CPI) for 2014 that returned a score of 43 with a rank of 69 out of 174 Countries assessed. This ranking puts Swaziland in the medium risk category. The last Public Expenditure and Financial Accountability) PEFA assessment for Swaziland was in 2011. Although it indicated improvements compared to the 2007 assessment, a number of deficiencies were identified including: weak internal audit – that does pre-audits rather than risk based audits; low quality of audits with OAG not applying recognized auditing standards and insufficient technical capacity to adequately fulfil its mandate; and weak procurement institutions. The African Development Bank Strategy Paper (2014-2018) also highlights weaknesses in these areas, pointing to slow progress in improvement.

7. At project level, the residual risk taking into account mitigation measures based on CFI has been assessed as medium. Project design has taken into consideration this risk profile while designing financial management aspects of the project. The main considerations made include the following:

(a) Implement a mainstreamed PMU within CFI with project staff fully dedicated to the project. The current staff will be maintained with additional recruitment done to fill the vacant positions including M&E;

(b) Open a designated account in the Central Bank of Swaziland and a project specific operating account. There will be authorised allocation, advanced from the loan. Disbursement will be on a replenishment basis operated under SMART SOEs and direct payment disbursement procedure is also provided for;

(c) Sun System accounting software will be maintained. A re-configuration will be done to meet the reporting requirements under the new project;

(d) Internal audit of the project will be at least once a year and IFAD will request GoS to share the audit reports or recommendation implementation action plan as shall be agreed at negotiations; and

(e) The Project statutory audit will be carried out by a private audit firm, who will audit the project in accordance with IFAD audit guidelines.

8. The following Financial Management conditions or covenants for Board presentation and conditions for withdrawal.

(a) There shall be a designated account denominated in USD to receive the loan funds to the benefit of the Ministry of Finance and the account shall be held in the Central Bank of Swaziland. A project operating account will be opened in a Commercial Bank acceptable to IFAD to the benefit of CFI. Funds shall be received in the designated account and transferred into the operating account from where expenditure shall be done;

(b) The PMU, headed by the Project Manager shall have been fully constituted and adequately staffed with the key staff;

(c) The existing PIM (including a financial manual) will have been updated for purposes of FINCLUDE in the form and substance acceptable to the Fund and submitted to IFAD for approval.

Project Financial Profile

9. **Nature of project eligible expenditures -** FINCLUDE expenditure categories have been assigned in accordance with the standard flexcube expenditure categories. Eligible expenditures include the following expenditure categories: (i) Credit Guarantee funds, (ii) equipment and materials, (iii) consultancies, (iv)salaries and allowances, and (v) operating costs. The summary costs and financing plan are shown in the table below. Detailed cost tables are presented in appendix 9.

10. **Financing Plan.** FINCLUDE will be financed by GoS and IFAD with a combined project direct costs estimated at about USD 38.00 million over a six-year Project implementation period will be funded as follows: IFAD loan USD 8.95 million under concessionary terms, the private sector enterprises/financial institutions and financial Intermediaries are expected to contribute USD 7.46 million, beneficiary contribution of about USD 13.83 million and GoS will finance a counterpart contribution of USD 2.94 million to cover salaries of project staff and taxes.

Implementation arrangements

i. Implementing and participating organisations with fiduciary responsibilities

11. CFI will be the lead project agency implementing the project on behalf of the MoF, the borrower. The Project Management Unit (PMU) will be responsible for overall project implementation in consultation with other relevant national agencies and ministries to ensure consistency with national policies. The PMU established under CFI at National level will be composed of project specific staff fully dedicated to the projector headed by a Project Manager. The PMU will be accountable to the CEO of CFI, who will be the executive level head responsible for the strategic direction of the project. A Project Finance and Administration Manager, assisted by the Finance and Administration Officer will be supervised within the structures of CFI.

12. The PMU will be responsible for project coordination and management of fiduciary issues in conformity with the standards and requirements agreed upon between GoS and IFAD; and manage the project in accordance with the Financing Agreement and other project documents such as the Letter to the Borrower, the Project Design Report and the PIM/Finance Manual. It will also be responsible for the day-to-day management of the project.

13. There shall be established a Project Steering Committee (PSC), chaired by the PS, MoF, or his/her nominee, and composed of representatives from MoA, and other ministries and institutions with direct relevancy to the achievement of FINCLUDE’s goal and development objective. The PSC will provide strategic guidance towards the achievement of Project objectives and contribute to the higher level sector policy and strategic goals. This will also be responsible for review and approval of Annual Work Plans and Budgets and annual reports.

14. It has however been observed that under RFEDP, the attendance members of the PSC was not very consistent with representation changing every other meeting. This inconsistence could work against follow up of strategic issues to their logical conclusion. The PSC chair/PS MoF will help facilitate address this short coming.

15. In addition to the state/public actors, the design has identified NGO and private sector strategic partners for the implementation of FINCLUDE. These will complement the PMU through which Project delivery systems will be implemented by playing the following roles and responsibilities:

(a) The PMU will build on the existing mechanisms at CFI. This will allow quick start up by bringing into FINCLUDE the experiences and achievements of RFEDP. FINCLUDE PMU will be the central financial management hub of the project responsible for data processing and reporting. Payments to service providers and contractors will be centralised;

(b) Payment of advances to service providers/contractors will be in line with public procurement provisions and stipulated in the contracts for service provision.

Financial Management Risk Assessment

i. Inherent risks, Country issues, Entity risks and Project design

16. Major Country accountability issues affecting fiduciary environment:

(a) The last PEFA assessment of Swaziland was carried out in 2011. Compared to the previous one of 2007, the assessment noted that Swaziland's indicators overall improved. Key among areas of deficiency were: weak internal audit – where internal audit was doing pre-audits rather than risk based audits; low quality of audits done by the Office of the Auditor General (OAG). The OAG did not apply recognized auditing standards and had insufficient technical capacity to adequately fulfil its mandate; and weak procurement institutions. It was noted that Swaziland does not have an independent procurement institution that oversees the function. It is noted that the National Tender Board carries out both the oversight and implementation responsibilities raising questions on conflict of interest.

(b) Government accountability, transparency and corruption factors. The Mo Ibrahim Index of African Governance ranks Swaziland poorly in participation and human rights, as well as sustainable economic opportunity. In 2012, Swaziland was ranked 27 out of 52 countries, with a score of 49 (well below the regional average score of 59). Its performance in public management dropped by 8.4 points over the last six years to a score of 53.1. The 2014 TI CPI, Swaziland scored 43 (up from 39 in 2013) on the 1 – 100 scale with a rank of 69 out of 174 Countries assessed. This ranking puts Swaziland in the medium risk category- maintained from 2013. The African Development Bank 2014-2018 Strategy Paper indicate the same shortcomings pointing to little progress in addressing the issues.

17. The above inherent risk issues could affect the objective of using funds efficiently for purposes they are meant. Given the implementation arrangements of a PMU in a semi-autonomous institution, the implementation arrangements that pose risks are at entity level. These may lead to low disbursements arising from delays in start-up due to delays in setting up the PMU, meeting disbursement conditions; submission of withdrawal applications; and financial reporting, among others.

18. Overall assessment indicates that Swaziland mitigated is a medium risk country characterized by weak procurement systems and weak internal controls. Design arrangements have taken into account this medium inherent risk, and proposed hybrid implementation and financial management arrangements that are based on IFAD requirements and GoS existing systems.

ii. Project Control Risks

Table 2. Summary of FM Risks and mitigating actions:

	Initial Risk Assessment	Proposed mitigation	Final Risk Assessment
Inherent Risk			
1. TI Index	M	-	M
Control Risks			
1. Organisation and Staffing	M	Par 19 - 22	M
2. Budgeting	M	Par 23 - 27	L
3. Funds Flow and Disbursement arrangements	M	Par 27 - 36	M
4. Internal Controls	H	Par 37 - 38	M
5. Accounting systems, Policies and Procedures	L	Par 39 - 41	L
6. Reporting and Monitoring	M	Par 42 - 44	L
7. Internal Audit	H	Par 45- 46	H
8. External Audit	L	Par 47 - 48	L
Fiduciary Risk @ Design	**M**		**M**

Financial Management and Disbursement arrangements

19. **Organisation and staffing/Main-streamed PMU.** The Project will be implemented within the CFI's institutional framework. The MoF will have the overall responsibility of managing the Project whose implementation responsibility has been delegated to CFI. A Project Management Unit (PMU) will be established within CFI for the day-to-day management of the Project.

20. The PMU will be responsible for overall coordination of implementation, including preparation of the Annual Work Plan and Budgets (AWPBs), procurement, progress reporting, monitoring and evaluation and financial management. Whereas CFI has a national coverage, its staffing is lean. Thus, to ensure proper outreach, the PMU will liaise with other related government or donor-supported projects/programmes to explore and exploit any existent synergies and avoid duplication; and engage Chiefdoms to guarantee ownership and a high level of delivery of project results. The Project will also rely on other Government entities which will act as implementing agencies for specific subcomponents.

21. The full staff of the PMU are listed in Appendix 5. The Project Director will be the CFI CEO and the Project Manager a Senior Programme Officer of CFI. The Chief Financial Officer will lead the financial management of FINCLUDE and will be supported by a Finance and Admin. The Chief Financial Officer of CFI who will have responsibility to review FINCLUDE's financial operations has experience with IFAD project financial management requirements. The skill gaps identified will be acquired through competitive recruitment complemented by Technical Assistance and services of strategic partners. Recruited staff will be exposed in IFAD specific procedures at start up and during implementation.

22. The key implementation risk in fiduciary aspects is availability of qualified and experienced procurement staff to support the project. The current arrangement does not provide for segregation of duties between financial management and procurement. Procurement aspects will require to be addressed either by recruiting a staff to join the team at PMU or by targeted support from MoF to facilitate procurement processes.

23. **Budgeting.** CFI's annual budget allocation/expenditure appropriations from both IFAD financing and Counterpart funding are included in the national budget. A budget request for is sent to MoF indicating the summary of requirements as extracted from the AWPB showing what is required from both GoS and IFAD financing. This is later authorised and allocated. However, this is not monitored in one system as GoS does not run an integrated financial management platform.

24. Budgeting procedures and additional controls are provided for in the financial manual at project level and controls are inbuilt into Sun Systems. Budget deadlines for the submission of the AWPB's

have been met due to the availability of clear planning schedules at PMU that RFEDP followed which are in line with IFAD requirements.

25. Implementation risk relate to failure to meet budget deadlines for the submission of the AWPB's due to the non- availability of clear planning schedules and lack of clarity of FINCLUDE requirements at low levels and inadequate budget controls.

26. The project will be implemented on the basis of approved Annual Work Plans and Budgets (AWPBs). CFI's budget calendar will be followed as it is aligned with IFAD budget submission deadlines. As a decision has been made that CFI will use Sun Systems for accounting for FINCLUDE, posting of the budget into the accounting software will be a requirement to facilitate review of trends and budget control.

27. Budgeting should involve the Project finance team, technical staff, procurement officer and the M & E Officer. This should ensure that the expenditures categories are well aligned and the logframe is considered at budgeting time especially that the M&E module of the system has been implemented. It should also realistically inform the procurement plan as procurement action timelines will be clearly attended

28. Disbursement arrangements and Flow of Funds – Project design has put into consideration the country fiduciary risk profile and proposed financial management arrangements that will ensure that the loan proceeds and other financing sources will be used for their intended purposes. This has been on the basis of lessons learned under RFEDP and SMLP/CSARL, the IFAD financed projects in Swaziland.

29. Under the previous project, RFEDP a designated account was opened at the Central Bank of Swaziland for the benefit of the Ministry of Finance and an operating account was opened in a commercial bank in the name of Micro Finance Unit. Funds were received in the designated account and transferred into the operating account through a call account. Taxes and other counterpart contribution were paid through the operating account where GoS funds were transferred. Under SMLP/CSARL, a designated account for GEF financing has taken too long to be opened due to long approval processes and as a consequence CSARL cannot disburse.

30. The only disbursement procedure used by the project was advance withdrawal/replenishment. By project closing date, the project had disbursed 87% which is considered successful. On the basis of the good lessons learned from the implementation of RFEDP, the Project will rely on existing disbursement mechanisms.

31. **Designated and operating accounts.** MoF will open a designated account in USD in the Central Bank of Swaziland denominated in USD for the benefit of the Ministry of Finance. An operating account for the loan will be opened in a commercial bank acceptable to IFAD to the benefit of CFI. The operating account will be for purposes of receiving funds from IFAD and GoS. Since GoS requires that the minimum balances are maintained in the operating accounts, the account will be linked to call accounts from where funds will be accessed. MoF will communicate the authorised signatories for the bank accounts and withdrawal applications to IFAD prior to submission of the first withdrawal application.

32. Withdrawal applications will be under the advance/replenishment procedure by use of SMART Statement of Expenditure (SoE). Specific thresholds on the SoEs will be applied for goods, works and services to determine the transactions whose support documents will be required at submission of withdrawal applications and those that will not support documents. SoEs will also be reviewed during missions and will be audited by independent auditors appointed by MoF/CFI.

33. An initial advance, the authorised allocation has been estimated at USD 1,000,000 will be accessed upon meeting the disbursement conditions. The key supporting documents include evidence of meeting of disbursement conditions; bank account numbers, names and related signatories; and signatories of the withdrawal applications. Subsequent withdrawals will be on the

basis of SoEs, where withdrawal applications will be submitted upon spending up to 30% of the authorised allocation or 90 days since the last withdrawal application was submitted.

34. For purposes of the credit guarantee fund, a separate bank account will be opened at the Central Bank of Swaziland to receive the funds that will be under the management of the Central Bank. The fund will be subject to review by IFAD/GoS missions and audit by both internal and external auditors of the project. The management and controls of the guarantee fund has been provided separately under the description of component 2 and details of its operation will be included in the PIM.

35. To the extent possible, financial management will be centralised at PMU. Where it will be determined that the implementing agencies/partners will require financing from the project, funds to transfers will be on the basis of planned activities with specific activity based advances. Subsequent transfers will be upon justification of previous advances. Contracted service providers identified through a competitive procurement process will be paid in accordance with provisions of individual contracts.

36. Funds may also be withdrawn by use of direct payment procedure where payments with a value of equivalents of USD 100,000 for a single transaction or single service provider or contractor may be made. This withdrawal procedure will require all relevant support documents including a contract, evidence of receipt of goods/provision of service and invoice.

37. The funds flow chart attached depicts the use of the standard disbursement methods including: i) direct payment method for bigger payments over USD 100,000; ii) use of advance withdrawal/designated account; and iii) reimbursement if the GoS has pre-financed any transactions. Detailed instructions for disbursements will be included in the Letter to the Borrower (LTB) issued for FINCLUDE and the Project Financial Manual.

38. **FINCLUDE Funds flow Chart -** The Project will have one external funding source, the IFAD loan. Domestic funding sources will include GoS, participating financial institutions and Beneficiaries. The funds flow chart is attached at annex 1.

39. The financial management risks under the area of funds flow and disbursement include the following:

(a) Experience has shown that the biggest project risk has concerned slow implementation, thus slow disbursement. This coMoF with challenges of low funds uptake with a possibility of a project failing to absorb funds allocated as has been the case with SMLP/CSARL that had a slow start;

(b) Late submission of withdrawal applications in excess of 90 days; and

(c) Poorly coded chart of accounts that will make it difficult to isolate IFAD financed or project specific expenditure and ease generation of SoEs/withdrawal applications.

40. The proposed mitigations for the financial management risks under the area are:

(a) Submission of withdrawal application upon realising 30% expenditure of the authorised allocation or 90 days from the last submission of a withdrawal application, whichever is earlier;

(b) Schedule 2 of the financing agreement will keep the financing rules simple to ease cost attribution; and

(c) Setting up the chart of accounts will be a loan covenant. As part of Start-up activities, coding of the chart of accounts and related configuration will be key tasks for project management. Where the meeting of disbursement accounts will require some financing, a start-up costs facility as shall be agreed at negotiations will be allocated.

41. **Internal Controls**. In a main-streamed PMU, within CFI systems should provide assurance of strong internal controls. These controls will be enhanced by addressing the following challenges that have been experienced under RFEDP.

(a) Absence of segregation of duties between procurement and financial management where the same personnel responsible for procurement are also responsible for financial management;

(b) Implementing internal audit arrangements that should provide assurance on internal controls of the project.

42. At project level, internal controls will be set to ensure that project resources are properly utilised for purposes they are meant and funds reach intended beneficiaries. Financial management procedures for FINCLUDE will be included in the financial management manual. The key controls should include evidence of funds reaching intended beneficiaries and the use of financial management procedural manuals, adequate segregation of duties with the following functional responsibilities performed by different units or persons, budget control, proper use of accounting software, data backup, and storage of accounting records, among others.

43. Adherence to the internal control framework will be verified during the internal and external audit exercises and reported to the IFAD in the form of an internal audit report and Management letter, in line with IFAD's audit guidelines. Compliance to the internal controls will also be part of the fiduciary checks performed during supervision and implementation support missions.

44. **Accounting Systems, policies and procedures.** FINCLUDE will use a hybrid of national systems and IFAD project financial management requirements.

(a) CFI continues to use the Sun Systems accounting software used for accounting under RFEDP. The chart of accounts under RFEDP was properly coded to reflect the programme Components, sub-components, and expenditure categories up to individual activity level but this will be inadequate for the needs of FINCLUDE.

(b) Sun Systems accounting software whose license is still valid will be used by CFI for the accounting needs of FINCLUDE as it is capable of capturing and reporting by category in addition to sub-component, and component by financier.

(c) The financial management manual developed for RFEDP will be updated to address the needs of FINCLUDE. The manual will describe the accounting system, internal control procedures, basis of accounting, standards to be followed, authorization procedures, financial reporting process, budgeting procedures, financial forecasting procedures, and contract management. In addition, the manual should document withdrawal procedures and auditing arrangements. The FINCLUDE Project Manager will ensure that the manual is kept up-to-date and this should be incorporated as a deliverable in the Finance and Administration Manager's ToR.

45. Financial expenditures recorded in the accounting system will be coded/tagged by cluster / commodity as well as location to allow in-depth analysis of costs and returns for different parts of the project.

46. **Financial reporting.** The project produces monthly and quarterly reports from Sun Systems. Quarterly reports are submitted to MoF and the semi-annual reports to IFAD have been submitted on a timely basis. Sun Systems has a provision M&E reports which is useful in analysing the financial against the physical progress. This arrangement will continue under FINCLUDE.

47. The PMU will be the financial management and reporting hub, responsible for posting, reconciling and reporting on project finances. In line with the IFAD reporting requirements, PMU will prepare and present Interim financial reports on a semi-annual basis. The contents of the reports will consist of at least the following: a statement of source and uses of funds, a statement of uses of funds by project component by financier and expenditure category, and a summary variance report

explaining financial performance for the period. The PMU will also produce annual project financial statements in line with IFAD reporting requirements. The explanatory notes should be presented in a systematic manner with items on the statement of cash receipts and payments cross-referenced to any related information in the notes.

48. The key risks include inadequate disclosures, inadequate chart of accounts to produce reports by category and by component by financier and delays in submission of audit reports. There is also a risk that the set-up of the chart of accounts may not facilitate auto generation of “Smart SoEs” which would necessitate the cumbersome data manipulation in MS excel which is prone to errors and time consuming. The re-configuration of the chart will be cognisant of the structure of “Smart SoEs” so that possible delays in submission of withdrawal applications arising out of manual data manipulation are addressed. Draft financial statements for audit will be availed to the auditor three months following end of the fiscal year to facilitate early start of the audit.

49. **Internal Audit.** CFI does not have an Internal Audit Department. Under RFEDP, assurance on the functionality of internal controls was checked during external audits and during IFAD supervision missions. The department of Internal Audit at the MoF, which is in charge of internal controls at the MoF will have responsibility to provide internal audit services to FINCLUDE. To ensure adequate coverage of audit of project operations, internal audit will ensure that FINCLUDE is included in their internal audit plan, to be covered at least once in a year. The internal audit arrangement will be risk-based assessment of the operations rather than pre- audit that may not provide opportunity for improvement.

50. Under FINCLUDE, IFAD will ask GoS for systematic access to internal audit reports or recommendations with the related progress on implementation action plan and insist that the Project features at least once in the Internal Audit Department’s annual plan.

51. **External Audit.** The statutory audit of RFEDP was carried out by a private audit firm (Kobla Quashie & Associates) whose performance was rated highly satisfactory. Audit reports were always submitted on a timely basis with unqualified opinions. From a portfolio perspective, the statutory audit of SMLP/CSARL (currently ongoing) is also being conducted by private audit firm with the current one being KPMG.

52. In the Auditor General’s report for the fiscal year 2015/16, the Auditor General noted that her office does not meet the institutional capacity building framework set by the International Organisation of Supreme Audit Institutions that require national audit coverage of at least 75%. For 2015/16, of the 368 audits planned, only 118 were executed. The key challenge is staff capacity, which the OAG does not have control over as staff are deployed by the Ministry of Public Service. In this set up, it is possible that the audit of FINCLUDE may not be covered or when covered it could significantly delay. This would constitute none compliance with financing agreement covenants that is not acceptable to IFAD.

53. To mitigate the above challenges, the project statutory audits will continue to be conducted on an annual basis by a private audit firm in accordance to IFAD audit guidelines. The use of the OAG will however be reviewed in the course of implementation to determine their consideration for the audit of FINCLUDE as the current challenges faced by the office are being addressed.

54. Statutory audits will provide mandatory opinions on the general purpose financial statements, operation of the designated account and the use of the SoE procedure. Statutory audit terms of reference will require IFAD’s ‘No Objection’ on an annual basis. Guidance in preparation of audit terms of reference is included as attachment 2.

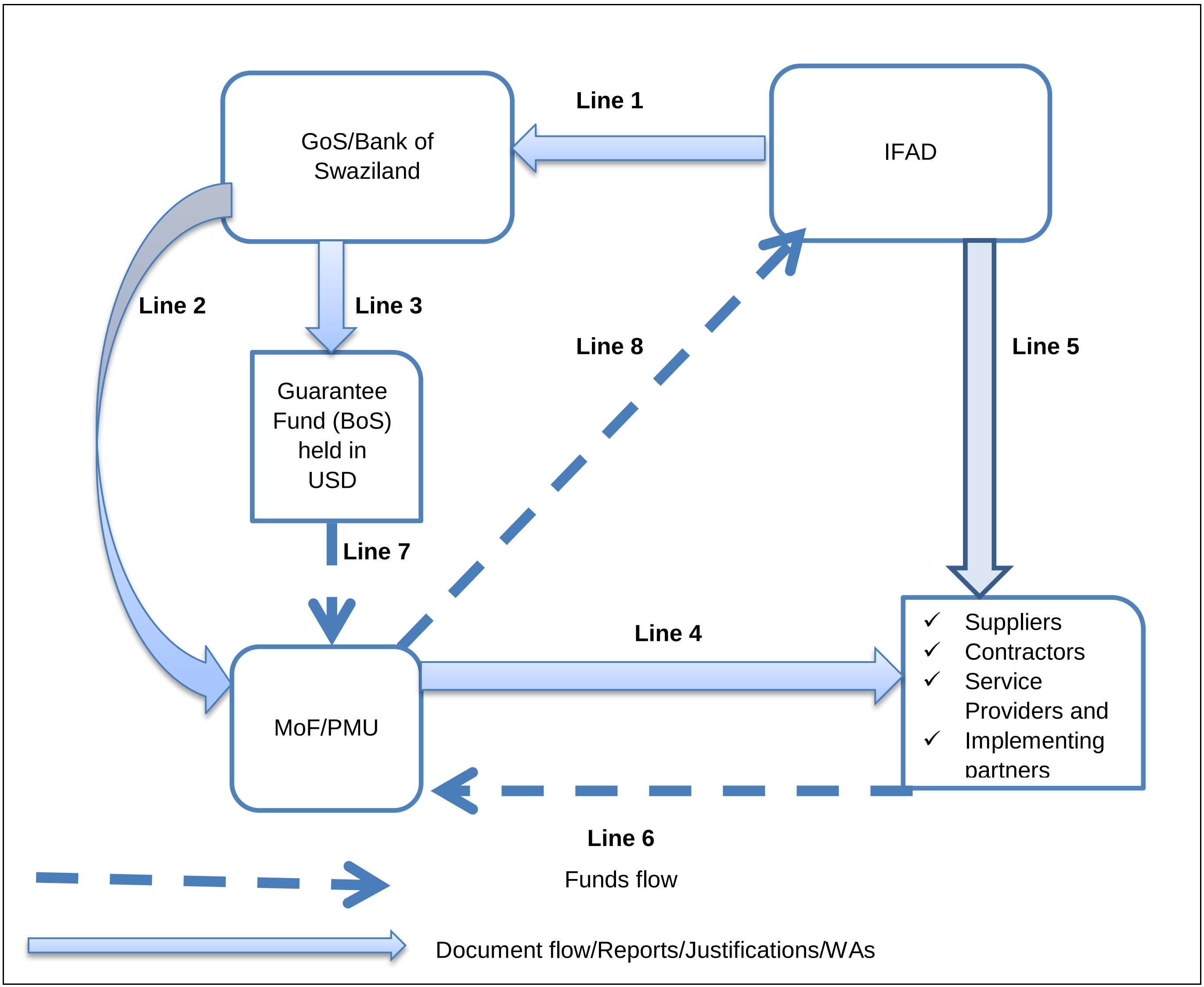
Implementation Readiness

Table 3: FM Actions Summary: The actions needed to mitigate financial management risks are summarised below:

	Action	Target Date / Covenants
1.	Constituting PMU headed by a Project Manager with fully dedicated staff to the project/or recruited on fixed term performance based contracts where the skills and experience do not exist within CFI	Within first six months or as shall be agreed during negotiations
2.	Compile the first AWPB and its related Procurement plan	Withdrawal condition
3.	Revise the PIM to provide for requirements of FINCLUDE. The revised PIM should include a comprehensive financial management manual with a comprehensive project chart of accounts for the new project	Within first six months of entry into force
4.	Appoint a Project Steering Committee with the Principle Secretary, MOF or his designate as a Chair	Within six months of entry into force
5.	Re-configure Sun Systems to meet the accounting and reporting requirements FINCLUDE.	Part of start-up activities
6.	Opening of the designated account and operating account	Withdrawal condition

55. **Supervision and Implementation Support Plan for Financial Management.** The risk profile described above requires IFAD implementation support especially in the first two years of implementation. Initial implementation support resources should include facilitation of the PMU to put in place the systems and controls to manage fiduciary aspects of FINCLUDE. In the first two years, it is proposed that there should be at least two IFAD missions to ensure financial management systems and tools are in place and implemented.

Annex 1. Funds flow chart



(a) Line 1: Advance withdrawal/replenishment to the designated account by IFAD in USD on the basis of withdrawal applications;

(b) Line 2: Transfer of funds from the USD designated account at Bank of Swaziland to the operating account;

(c) Line 3: Flow of Guarantee fund from a designated account into a guarantee fund account held with the Central Bank. It will be held in USD and may be transferred back into the designated account if it fails to take off;

(d) Line 4:Payments for goods supplied, works executed, services rendered, salaries and other expenses for Project implementation and management;

(e) Line 5: Direct payments for payments with high value equivalents of USD 100,000 and above;

(f) Line 6: Necessary transactional documents and reports are compiled/obtained from suppliers/contractors/service providers including evidence of completion of service/ delivery of goods and justification from implementing partners;

(g) Line 7: Reports/status of utilisation of the guarantee fund obtained by the project from the Central Bank;

(h) Line 8: Justification and information flow from MoF/CFI to IFAD including availability of support documents for review.

Appendix 8: Procurement

1. Procurement of Goods, Works and Services financed by the IFAD loan will be undertaken by the Center for Financial Inclusion (CFI) in accordance with GoS's Procurement guidelines and procedures to the extent they are not in conflict with IFAD Project Procurement guidelines. The use of the Borrower's procurement regulations is provided for under IFAD's General Conditions, provided they are deemed to be consistent with IFAD's guidelines. Further, this is in line with the various commitments of the international donor community to work towards increasing the use of national systems where they are compatible with the requirement of the donors.

2. The IFAD procurement guidelines and handbook require an assessment of national procurement systems as part of project design. The assessment has been done in two stages: (i) overarching country assessment; and (ii) project specific assessment at the CFI.

3. **Overarching Country assessment.** The Republic of Swaziland has a developed regulatory framework on procurement. Public Procurement is the responsibility of the Swaziland Public Procurement Regulatory Agency established by section 9 of the Procurement Act, 2011.

4. GoS's legislative and regulatory framework has been assessed as inadequate and will be used in with a mix of IFAD requirements in the implementation of procurement activities under FINCLUDE. GoS regulations will be used in as far as they are consistent with IFAD's procurement guidelines. This is consistent with Section 5 of GoS's Procurement Act which provides that :

> *"Where this Act conflicts with an obligation of the Government of Swaziland arising out of an agreement with one or more States or with an international organisation, the provisions of the agreement shall, to the extent that this Act conflicts with that obligation, prevail over this Act; but in all other respects, the procurement shall be governed by this Act. Government entities shall seek the opinion of the Agency before entering into any agreement which requires the application of procurement procedures or arrangements other than those in this Act".*

5. The Procurement Act provides for, among other key areas:

a) Procurement principles of economy, efficiency, transparency, accountability, fairness, competition and value for money;

b) The procurement methods and process from need identification to contract award procedures and closure of contract;

c) Non-discrimination and measures to promote Swazi companies;

d) Supplier eligibility;

e) Supplier pre-qualification;

f) General procurement rules;

g) Administrative review procedures; and

h) Codes of conduct, offences and penalties.

6. It is noted, however that the Procurement Regulations – the Public Procurement Regulations of October, 2014 supporting the Act are still in draft form. The old regulations approved before enacting of the act are still in use.

7. Overall the Country's legal framework provides an adequate legal environment which is not yet fully operational. Arising out of this observation, a combination of National requirement and IFAD Project Procurement regulations will be applied in the implementation of FINCLUDE.

8. **Project Specific Assessment.** FINCLUDE will be implemented by the CFI which is an institution under the MOF. Whereas the MoF under the procurement act is a procuring entity (PE); a Ministry duly authorised to engage in Public Procurement CFI is not. The Procurement Regulations provide for appointment of an a Controlling officer and for CFI, the Permanent Secretary of MoF is the

controlling officer as CFI does not have its own vote. The controlling officer has the overall responsibility for the execution of the procurement process of the PE, and therefore FINCLUDE. Procurement processes managed at CFI level will be on the basis of delegation by the PS, MoF.

9. During the design mission, a procurement assessment was carried out on CFI - the lead implementing agency (LPA) and the host of the PMU in accordance with the IFAD procurement guidelines and handbook. The assessment also drew lessons from the implementation of procurement under IFAD financed Rural Finance Enterprise Development Programme (RFEDP) whose LPA was the FMU – now CFI. Lessons have also been drawn from the operations of Smallholder Market – Led Production/Climate Smart Agriculture Resilience Project (SMLP/CSARL) which is also IFAD financed to put the assessment in the country portfolio context. Below is a summary of the assessment, highlighting key issues that will require to be addressed.

Table 1: Summary of Procurement Risks /Findings and Actions (Risk Mitigation Matrix)

No	Area	Major findings/Actions proposed
1.	Lack of Segregation of duties	a) Under RFEDP the Finance and Administration Manager was in charge of both financial management and procurement. This is an internal control weakness that will have to be addressed under FINCLUDE; b) Given the level of operations at CFI, it has been deemed costly to employ a procurement officer. The MoF will support the procurement processes at CFI and the Executive Secretary will be given some procurement roles in the TOR. In accordance to Section 31(1) c and d other items may be purchased directly by the requesting entity (CFI), provided the estimated value does not exceed the monetary threshold for the entity specified by law with the major ones managed by CFI under a MoF tender committee.
2.	Procurement planning	a) Poor planning and monitoring leading to significant delays in executing procurement actions. Examples under SMLP – Delays in procurement of consultants and equipment arising mainly out of delays in finalisation of the AWPB and the related Procurement Plan; b) To address the above, procurement planning will be a requirement as part of the annual work plan and budget and will involve all PMU personnel including personnel responsible for procurement support from MoF. This should facilitate matching of desired implementation timelines with processes and planned targets with available funds from the different allocations including financiers; c) Train procurement staff in the preparation and updating and monitoring of procurement plans in the IFAD recommended format but also including GoS mandatory requirement; d) Develop a checklist of procurement records that must be on each procurement file and make it a filing requirement; e) Provide training in procurement planning.

10. **Procurement organisation structure.** FINCLUDE PMU will be hosted by CFI. FINCLUDE procurement will be implemented within the mainstream where procurement processes will be managed within CFI, but facilitated under the Departmental Tender Committee at MoF as appropriate as provided for in the guidelines. The specific Procurement Officer assigned to FINCLUDE PMU, will be a key procurement liaison person for the project.

11. The MoF will have the overall approval authority as it will approve or delegate approval in accordance with legal thresholds; (i) all procurement plans; (ii) draft advertisements and other bidding documents; (iii) specific terms and conditions relating to contract amounts, completion periods, stages and conditions of part payments;(iv) all procurement recommendations by the Tender Committee and (iv) variations/amendments of contracts.

12. **Procurement planning.** Procurement planning will follow the GoS planning calendar (August to December). All procurement will be executed only against approved procurement plans and

AWPBs, specifying items to be procured, responsibility for the procurement and the appropriate procurement methods. A detailed procurement cycle will be included in the PIM.

13. The procurement plan for each year will be consistent with the project's AWPB. Items procured outside the procurement plan and the related AWPB will be declared mis-procurement and the related expenditure will be ineligible for financing from the loan proceeds.

14. The consolidated Procurement Plan will be submitted together with the AWPB to the Project Steering Committee for approval, and to IFAD for a no objection as part of the FINCLUDE project AWPB and later to the department of procurement for information/inclusion in the MoF annual Procurement Plan.

15. **Summary of key areas to consider during procurement planning:**

a) A brief description of each procurement activity to be undertaken during planning period;
b) The estimated value of each activity in USD equivalent to BWP;
c) The method of procurement to be adopted for each activity;
d) Works Procurement Packages with Methods and Time Schedule;
e) Goods Procurement Packages with Methods and Time Schedule;
f) Service Procurement Packages (both Consultancy and Non-Consultancy Assignments) with Selection Methods and Time Schedule;
g) The method of review IFAD will undertake for each activity (Post or Prior Review); and
h) Timelines showing milestones when the key stages of the procurement cycle will be achieved.

16. **Bidding Documents.** The conduct of a transparent and successful procurement is dependent on the quality of bidding documents. Thus, to guard against omissions and unnecessary cost overruns, it will be essential that bidding documents get very well prepared. Under FINCLUDE, the GoS standard bid documents will be used and adapted to suit each specific procurement items. IFAD clearance of the Standard Bidding Documents/TOR and specifications in respect of FINCLUDE will be a requirement.

17. **Contract Management and procurement records.** PMU will be held responsible for overall contract management including monitoring of performance of the implementing agencies as appropriate and establishing Contract Management systems. The PMU contract management system will include: (i) management of contract start-up issues (including site handover and take over for civil works); (ii) opening and updating a contracts register; (iii) monitoring of contract implementation; (iv) claims management; (v) implementation of penalty clauses; (vi) contract amendments; and (vii) contract completion and closure. These will be managed within the procurement arrangements of CFI.

18. Procurement records shall include request to initiate a procurement, the rationale for the method of procurement, solicitation document including TOR/specifications/bid documents, selection of the contract type, advertisement, record of sale of bids, record of receipt of bids (both successful and successful bids), record of opening of bids, evaluation minutes and report, the justification for the award, award letter, acceptance letter, contracts incl. amendments if any, and other correspondences related to the procurement, including approvals and No Objections. Sections 44 of the Procurement Act, General Procurement Rules and 162 of the draft regulations which require a procurement and requesting entities to maintain a record of its procurement proceedings in which it is involved, including decisions taken and the reasons for it. Under the IFAD general conditions, records are kept for ten years after project closure. A checklist for some of the key information that should be included in a procurement file will be included with more details in the PIM.

19. **Particular Methods of Procurement of Goods, Works, and Non-consulting Services and related thresholds are proposed.**

Table 2.Thresholds for Procurement and Review Methods

Expenditure Category	Contract Value Threshold (USD)	Procurement/Selection Method
Works	>1,000,000	ICB
	≥ 50,000 ≤ 1,000,000	NCB
	< 50,000	Shopping
	All values	Direct Contracting
Goods	≤ 200,000	ICB
	≥ 10,000 < 200,000	NCB
	< 10,000	Shopping
	All values	Direct Contracting

20. **None Consulting Services.** Non consulting services will be procured using the following methods.

a)Request for Quotations:

- Internationally: for contracts valued over USD 200,000 equivalent; and
- Nationally: for contracts valued over USD 50,000 equivalent up to and including (e.g. USD 200,000 equivalent;

b)National Shopping applies to contracts valued up to and including USD 50,000 equivalent.

21. **Consulting Services**. The Quality and Cost Based Selection will be the standard method applied unless otherwise approved. The following processes will apply:

a) Request for Proposal (Internationally)– for contracts with a value over USD 200,000 equivalent; and
b) Request for Proposal (Nationally) - for contracts with a value up to and including USD 200,000.

22. **Prior-Review by IFAD:** In accordance with paragraph 80 of the IFAD Project Procurement Guidelines, the following will be subject to prior review by IFAD:

a) Award of any contract for goods and equipment to cost USD 100,000 or equivalent or more;
b) Award of any contract for works estimated to cost USD 100,000 or equivalent or more;
c) Award of any contract for consulting services estimated to cost of USD 50,000 or equivalent or more;
d) All contracts done under direct procurement method;
e) Memoranda of Understanding (MOU) or any equivalent contractual vehicle entered into between FINCLUDE or MoF with any entity including other GoS agencies

23. For NCB, GoS regulations will apply. All bidding documents will need to be satisfactory to IFAD and subject to the additional procedures and modifications stipulated below and to be reflected in the Financing Agreement.

24. **Eligibility.** The eligibility of bidders shall be as defined under Section 40 of the Procurement Act; therefore, no bidder or potential bidder shall be declared ineligible for contracts financed by IFAD for reasons other than those provided in Section 40 of the Procurement Act. Where ***"Non Discrimination and Measures to Promote Swazi Companies"*** as provided for in section 39 (2) is applied, such measures, including but not limited to preferences in the evaluation of tenders and proposals, shall apply only where they have been specified in the public procurement regulations. FINCLUDE will seek IFAD concurrence for such treatment. Otherwise no domestic/regional preference or any other kind of preferential treatment shall be given for domestic/regional bidders, for

domestically/regionally manufactured goods, and/or for domestically/regionally originated related services.

25. Government-owned enterprises or institutions of Swaziland shall be eligible to participate in the bidding process only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the borrower.

26. **Qualification.** Qualification criteria shall entirely concern the bidder’s capability and resources to perform the contract considering objective and measurable factors. The qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified and only such criteria so specified shall be used to determine whether a bidder is qualified. Qualification criteria shall be assessed on a ‘pass or fail’ basis, and merit points shall not be used. Bidders’ qualifications may be assessed by post-qualification and such an assessment shall be conducted separately from the technical and commercial evaluation of the bids.

27. **Advertisement.** A shorter version of the advertisement text, including the minimum relevant information, may be published in a national newspaper of wide circulation provided that the full text is simultaneously published in the official gazette or on a widely used website or electronic portal with free national and international access.

28. **Bid preparation time.** Bidders shall be given at least six weeks for ICB, four weeks for NCB and two weeks for selective tendering, from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, to prepare and submit bids in accordance with regulations.

29. **Bids submission and bid opening.** Bids may be submitted by electronic means only provided that the Fund is satisfied with the adequacy of the system, including, among other things, that the system is secure, maintains the integrity, confidentiality, and authenticity of the bids submitted, and uses an electronic signature system or equivalent to keep bidders bound to their bids.

30. Bids shall be opened in public, immediately after the deadline for their submission in accordance with the procedures stated in the bidding documents. The public bid opening shall take place in only one session. At the public bid opening, the names of the bidders and the total amount of each bid and of any alternative bids if they have been requested or permitted, shall be read aloud and recorded when opened. Bids shall not be evaluated as part of the bid opening process, and no bid shall be rejected during the public bid opening session, except for late bids. Bidders shall not be allowed to submit their bids after the deadline for submission of bids has expired.

31. **Bid validity.** No automatic extension of the bid validity shall apply. If justified by exceptional circumstances, an extension of the bid validity may be requested in writing by the Project to all bidders before the original bid validity expiration date and it shall cover only the minimum period required to complete the evaluation and award of the contract.

32. **Bid evaluation.** Evaluation of bids shall be made in strict adherence to the evaluation criteria declared in the bidding documents. Evaluation criteria other than price shall be quantified in the manner in which they will be applied for the purpose of determining the lowest evaluated bid shall be established in the bidding documents. A weighting/scoring system may be used.

a) A contract shall be awarded to the qualified bidder offering the lowest-evaluated and substantially responsive bid;

b) Bidders shall not be eliminated on the basis of minor, non-substantial deviations;

c) Requests for clarification and the bidder’s responses shall be made in writing and all the clarifications made shall be notified to all the bidders; and

d) After the public opening of bids, information relating to the examination, clarification, and evaluation of bids and recommendations concerning the awards shall not be disclosed to bidders or other persons not officially concerned with this process until publication of the award of the contract.

33. **Rejection of all bids and re-bidding.** Without the Fund's prior concurrence, there will be no procurement process where all the bids will be rejected, or which will be cancelled, and new bids solicited.

34. **Securities.** Bid securities shall not exceed 3 percent of the estimated cost of the contract; and performance securities shall not exceed 10 percent of the contract price. The successful bidder shall be given at least 15 days from the receipt of notification of contract award to submit a performance security. No advance payment shall be made without a suitable advance payment security in accordance with section 158 of the Procurement Act.

35. **Complaints by bidders and handling of complaints.** The borrower shall establish an effective and independent protest mechanism allowing bidders to protest and to have their protest handled in a timely manner. The GoS complaint management procedure shall be used.

36. **Contract and contract modifications.** Contracts shall be in writing and the bid of the successful bidder shall become part of the contract documents. In the case of contracts signed after prior review by IFAD, the IFAD's No Objection shall be obtained before agreeing to any type of amendment, such as (a) a material extension of the stipulated time for performance of a contract; (b) any substantial modification of the scope of services or other significant changes to the terms and conditions of the contract; or (c) the proposed termination of the contract. A copy of all contracts and amendments shall be furnished to the IFAD for its record.

37. **Right to inspect/audit.** In accordance with the Procurement Guidelines, each bidding document and contract financed from the proceeds of the financing shall stipulate that bidders, suppliers, and contractors, and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the IFAD, at its request, to inspect their accounts, records, and other documents relating to the submission of bids and contract performance and to have them audited by auditors appointed by IFAD. Acts intended to materially impede the exercise of the IFAD's inspection and audit rights constitute an obstructive practice as defined in the Procurement Guidelines.

38. **Fraud and corruption.** In accordance with the Procurement Guidelines, each bidding document and contract financed from the proceeds of the financing shall include provisions on matters pertaining to fraud and corruption. IFAD will sanction a firm or individual, at any time, in accordance with prevailing IFAD sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time.

39. All contracts must be listed in the Register of Contracts, which should be updated and submitted to the IFAD on a quarterly basis.

Appendix 9: Project cost and financing

Summary

1. The total project costs are estimated as USD38.6 million. A total public investment of US17.3 million from GoS, IFAD and a climate financier is expected to leverage additional private investment of USD21 million from beneficiaries and enterprises as summarized below.

2. Financing will include USD2.9 million from GoS, an IFAD loan of USD8.9 million, an IFAD Grant of USD0.3 million via the Financing Facility for Remittances and a climate finance grant of USD5 million plus contributions from beneficiary of USD13.8 million and from enterprises of USD7.5 million. The climate financing request is a joint initiative between the MoF and MoTEA to introduce climate aspects to the rural finance sector in Swaziland, and will target one of the major climate financing institutions (Green Climate Fund, Global Environmental Facility, Adaptation Fund). The climate financing contribution is not yet confirmed and a full proposal and application will be developed and submitted during the first half of 2018 so that, if successful, it can start close to the same time as the main FINCLUDE project.

Table 19: Project costs and financing by component

	GoS		IFAD Loan		IFAD GRANT FFR		Climate financier Grant		Beneficiaries		Enterprises		Total	
USD 000		%		%		%		%		%		%		%
1. Inclusive Cluster Development	758	12.1	5,356	85.5	84	1.3	-	-	32	0.5	32	0.5	6,261	16.2
2. Expanding Supply of Rural Financial Services	66	0.3	2,498	10.4	219	0.9	-	-	13,800	57.5	7,431	30.9	24,013	62.3
3. Climate informed decision making and investment	-	-	-	-	-	-	5,069	100.0	-	-	-	-	5,069	13.1
4. Programme Management and Knowledge Management														
4.1 Programme Management Unit	2,119	75.6	685	24.4	-	-	-	-	-	-	-	-	2,803	7.3
4.2. Knowledge Management and M&E	-	-	413	100.0	-	-	-	-	-	-	-	-	413	1.1
Total PROJECT COSTS	2,944	7.6	8,951	23.2	302	0.8	5,069	13.1	13,831	35.9	7,462	19.4	38,559	100.0

3. However, given that there is a higher degree of uncertainty relating to the climate funding, the detailed cost tables and EFA for the project have been prepared for the 'core' FINCLUDE project with only GoS and IFAD funding. The costs and benefits from the climate funding have not been included in this Appendix 9 analysis and will be prepared separately as part of the full climate finance proposal preparation. Information and tables in this appendix therefore only cover the 'core' FINCLUDE project excluding climate finance-associated costs and activities.

4. Notwithstanding the above, a summary cost table for the climate-financed Component 3 has already been developed and is included at the end of this Appendix for reference only.

Table of content:

Tables:

ANNEX 1- provided in excel and COSTAB format

I. MAIN ASSUMPTIONS FOR COST ESTIMATION

1. **Introduction.** The Appendix describes the assumptions underlying the derivation of the project costs and presents summary and detailed cost tables and financing plan. Project costs are presented in both Emalangeni (SZL) and US dollars (USD). The Project input cost are set in US dollars.

2. **Project Period.** The Project is expected to have a duration of 6 years, starting in 2018.

3. **Inflation.** In line with estimates from The Economist Intelligence Unit (EIU), the annual local inflation rate has been set at about 5.6 percent per year for the whole project period. Foreign inflation was set at 2 percent per year.

4. **Exchange Rate.** Swaziland's foreign reserves will remain sufficient to sustain the lilangeni's one-to-one peg to the South African rand. The initial exchange rate for the cost estimate has been set at USD 1.00: Swaziland Lilangeni (SZL) 12.72, the rate prevailing in January 2018. Exchange rates for this analysis have been set at SZL 18.10 for the whole project period, as per EIU projections (EIU, Q4 2017).

5. **Unit costs.** Unit costs have been identified in US dollar and are expressed in constant prices (2018). Prices have been provided by Government of the Kingdom of Swaziland, the National Agricultural Marketing Board (NAMBOARD), input suppliers like Khuba Traders collected during field visits in July 2017 and updated during field visit of January 2018 and derived from other on-going IFAD projects in Swaziland. Project costs are presented in both SZL and USD.

6. **Taxes and Duties**. Taxes apply to all expenditure categories except for Salaries and Allowances, Consultancies and Credit, Guarantee Fund, as specified in table 1 below. All taxes and duties will be waived by the government and accounted for as Government of the Kingdom of Swaziland counterpart contribution in COSTAB.

7. **Physical and Price Contingencies.** Physical contingencies have been assumed at 10 percent and applied to Equipment and Materials; Consultancies; Training and Workshops; and Operating Costs. Price contingencies for local currency costs are negative due to the significant projected devaluation of the local currency versus the US dollar.

8. **Expenditure and Disbursement Accounts.** The expenditure categories considered are in accordance with IFAD standardization of expenditures categories. The same categories have been generated for the disbursement accounts. Expenditure accounts are shown in Table 1 including tax assumptions, average foreign exchange rates and physical contingencies.

Table 1: Expenditure Accounts

Description	Foreign Exchange (percent)	Taxes & Duties (percent)	Physical Contingencies (percent)
I. **INVESTMENT COSTS**			
A. Consultancies	100	0	10
B. Credit, Guarantee Fund	0	0	0
C. Equipment and Materials	80	14	10
D. Vehicles	80	14	10
E. Training and Workshop	50	14	10
II. RECURRENT COSTS			
A. Salaries & Allowances	0	0	0
B. Operating Cost	50	14	10

9. **Project Structure.** The Project has three components as follows:

1. Inclusive Cluster Development
2. Expanding Supply of Rural Financial Services
3. Programme Management, Coordination, Management Information Systems
    1. Project Management Unit
    2. Knowledge Management and Monitoring and Evaluation

II. PROJECT COSTS

10. **Total Project Costs.** Total project investment and recurrent costs, including physical and price contingencies, are estimated at USD 33.5 million (SZL 606 million) excluding Component 3 (see note above). The foreign exchange component is estimated at USD 6.7 million, while taxes have been calculated at approximately USD 0.4 million or 1 percent of total project costs. Total baseline costs are USD 38.3 million, while price contingencies account for *minus* USD 4.7 million (or 12 percent of the base costs) and physical contingencies amount to USD 0.38 (or <1 percent of the base costs). Table 2 and 3 below present a breakdown of the costs by FINCLUDE components. Detailed cost tables and additional summary tables are presented in in Annex 1 to this Appendix.

Table 2: Project Cost by Component

	(SZL)					(USD)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Inclusive Cluster Development	25,697,605	56,093,267	81,790,872	69	17	2,020,252	4,409,848	6,430,100	69	17
B. Expanding Supply of Rural Financial Services	346,302,000	12,720,000	359,022,000	4	74	27,225,000	1,000,000	28,225,000	4	74
C. Programme Management, Coordination and Management Information Systems										
1. Programme Management Unit	33,374,736	7,186,800	40,561,536	18	8	2,623,800	565,000	3,188,800	18	8
2. Knowledge Management + M&E	-	4,903,560	4,903,560	100	1	-	385,500	385,500	100	1
Subtotal	33,374,736	12,090,360	45,465,096	27	9	2,623,800	950,500	3,574,300	27	9
	405,374,341	80,903,627	486,277,968	17	100	31,869,052	6,360,348	38,229,400	17	100
Physical Contingencies	22,967	91,869	114,836	80	-	1,806	7,222	9,028	80	-
Price Contingencies	79,297,263	40,489,076	119,786,339	34	25	-5,092,152	344,284	-4,747,868	-7	-12
	484,694,571	121,484,572	606,179,143	20	125	26,778,706	6,711,855	33,490,560	20	88

Table 3: Project Component by year (USD) – totals including contingencies

USD

	Totals Including Contingencies						
	2018	2019	2020	2021	2022	2023	Total
A. Inclusive Cluster Development	1,826,313	1,033,161	969,690	833,947	791,443	806,735	6,261,289
B. Expanding Supply of Rural Financial Services	3,086,557	2,152,626	4,282,282	4,921,152	4,719,952	4,850,768	24,013,336
C. Programme Management, Coordination and Management Information Systems							
1. Programme Management Unit	455,887	424,666	447,251	469,129	491,475	514,993	2,803,400
2. Knowledge Management + M&E	59,590	66,963	44,659	47,160	49,197	144,966	412,535
Subtotal	515,477	491,629	491,911	516,289	540,671	659,959	3,215,935
	5,428,346	3,677,416	5,743,882	6,271,388	6,052,067	6,317,462	33,490,560

III. FINANCING PLAN

11. **Financing Plan.** Sources of financing for FINCLUDE include: i) an IFAD loan of USD 8.9 million (or 26.7 percent of total costs), covering all project components and expenditure categories; ii) the Government of the Kingdom of Swaziland counterpart funds of about USD 2.9 million, of which USD 0.4 million pertains to foregone taxes on the IFAD loan and the remaining USD 2.5 million to government and PMU staff salaries, PMU operating cost and PMU equipment and vehicles; iii) beneficiary contributions to the Sector Development Facility and FIRM, adding up to USD 13.8 million; iv) enterprises, which will support Sector Development Facility and FIRM (USD 7.5 million). Details of financing arrangements by components are shown in table 4 and by expenditure category in table 5.

Table 4: Financing Plan by Components (USD)

	The Government		IFAD Loan		IFAD GRANT FFR		Beneficiaries		Enterprises		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
A. Inclusive Cluster Development	758,363	12.1	5,356,164	85.5	83,549	1.3	31,607	0.5	31,607	0.5	6,261,289	18.7	4,655,776	1,445,800	159,713
B. Expanding Supply of Rural Financial Services	66,459	0.3	2,497,735	10.4	218,755	0.9	13,799,752	57.5	7,430,636	30.9	24,013,336	71.7	1,043,644	22,903,234	66,459
C. Programme Management, Coordination and Management Information Systems															
1. Programme Management Unit	2,118,847	75.6	684,553	24.4	-	-	-	-	-	-	2,803,400	8.4	599,900	2,054,308	149,192
2. Knowledge Management + M&E	-	-	412,535	100.0	-	-	-	-	-	-	412,535	1.2	412,535	-	-
Subtotal	2,118,847	65.9	1,097,088	34.1	-	-	-	-	-	-	3,215,935	9.6	1,012,435	2,054,308	149,192
	2,943,669	8.8	8,950,986	26.7	302,304	0.9	13,831,359	41.3	7,462,242	22.3	33,490,560	100.0	6,711,855	26,403,341	375,364

Table 5: Expenditure Accounts by Financier (USD)

	The Government		IFAD Loan		IFAD GRANT FFR		Beneficiaries		Enterprises		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
I. Investment Costs															
A. Consultancies	0	-	4,961,735	96.4	184,549	3.6	-	-	-	-	5,146,284	15.4	5,146,284	-	-
B. Credit, Guarantee Fund	-0	-	1,915,356	8.2	117,755	0.5	13,831,359	59.3	7,462,242	32.0	23,326,713	69.7	-	23,326,713	-
C. Equipment & Materials	26,592	14.0	163,350	86.0	-	-	-	-	-	-	189,941	0.6	154,873	8,477	26,592
D. Vehicles	18,516	14.0	113,740	86.0	-	-	-	-	-	-	132,256	0.4	107,949	5,791	18,516
E. Trainings & Wshops	147,162	14.0	903,997	86.0	-	-	-	-	-	-	1,051,160	3.1	584,112	319,885	147,162
Total Investment Costs	192,270	0.6	8,058,178	27.0	302,304	1.0	13,831,359	46.3	7,462,242	25.0	29,846,353	89.1	5,993,218	23,660,866	192,270
II. Recurrent Costs															
A. Salaries & Allowances	1,945,611	83.3	390,780	16.7	-	-	-	-	-	-	2,336,391	7.0	-	2,336,391	-
B. Operating costs	805,788	61.6	502,028	38.4	-	-	-	-	-	-	1,307,816	3.9	718,637	406,085	183,094
Total Recurrent Costs	2,751,399	75.5	892,808	24.5	-	-	-	-	-	-	3,644,207	10.9	718,637	2,742,476	183,094
Total PROJECT COSTS	2,943,669	8.8	8,950,986	26.7	302,304	0.9	13,831,359	41.3	7,462,242	22.3	33,490,560	100.0	6,711,855	26,403,341	375,364

Table 6: Expenditure Accounts by Components (USD) - totals including contingencies

Programme

			Management, Coordination and Management Information Systems		
	Inclusive Cluster Development	Expanding Supply of Rural Financial Services	Programme Management Unit	Knowledge Management and Monitoring and Evaluation	Total
I. Investment Costs					
A. Consultancies	3,952,909	780,840	-	412,535	5,146,284
B. Credit, Guarantee Fund	568,921	22,757,791	-	-	23,326,713
C. Equipment & Materials	137,970	-	51,972	-	189,941
D. Vehicles	132,256	-	-	-	132,256
E. Trainings & Wshops	576,455	474,705	-	-	1,051,160
Total Investment Costs	5,368,510	24,013,336	51,972	412,535	29,846,353
II. Recurrent Costs					
A. Salaries & Allowances	598,649	-	1,737,741	-	2,336,391
B. Operating costs	294,129	-	1,013,687	-	1,307,816
Total Recurrent Costs	892,779	-	2,751,429	-	3,644,207
Total PROJECT COSTS	6,261,289	24,013,336	2,803,400	412,535	33,490,560
Taxes	159,713	66,459	149,192	-	375,364
Foreign Exchange	4,655,776	1,043,644	599,900	412,535	6,711,855

Component 3: Climate resilient decision making and investment - Costs and Financing

In addition to the costs and financing for the 'core' FINCLUDE project, the costs for Component 3 are shown below and to be fully financed by a GFC grants. Note that the below costs are NOT reflected in the tables and figures in the rest of this Appendix 9 nor the Economic and Financial Analysis in Appendix 10.

		Quantities							Unit Cost	Base Cost (USD)						
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**	**(USD)**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
I. Investment Costs																
A. Climate informed decision making																
1. User Needs Assessment	Lumpsum	1						1	100,000	100,000	-	-	-	-	-	100,000
2. Service Improvement Strategy incl training materials	Lumpsum		1					1	100,000	-	100,000	-	-	-	-	100,000
3. Investments in equipment, software, tools	Lumpsum		1					1	800,000	-	800,000	-	-	-	-	800,000
4. Training of users	Workshop		8	8	8	8		32	2,000	-	16,000	16,000	16,000	16,000	-	64,000
								-								-
Subtotal								-		100,000	916,000	16,000	16,000	16,000	-	1,064,000
B. Investments in climate resilience								-								
1. Public Sector Window - Equipment and Infrastructure	Lumpsum		10	10	10			30	100000	-	1,000,000	1,000,000	1,000,000	-	-	3,000,000
2. Private Sector Window	Lumpsum		5	5	5			15	20000	-	100,000	100,000	100,000	-	-	300,000
Subtotal								-		-	1,100,000	1,100,000	1,100,000	-	-	3,300,000
C. Access to Climate Finance								-								
1. Climate Financing Strategy	Lumpsum	0.5	0.5					1	100,000	50,000	50,000	-	-	-	-	100,000
2. International Best Practice Workshop	Workshop	1						1	100,000	100,000	-	-	-	-	-	100,000
2. National Stakeholders Workshop	Workshop	2	1		1		1	5	2,000	4,000	2,000	-	2,000	-	2,000	10,000
Subtotal								-		154,000	52,000	-	2,000	-	2,000	210,000
Total Investment Costs								-		**254,000**	**2,068,000**	**1,116,000**	**1,118,000**	**16,000**	**2,000**	**4,574,000**
II. Recurrent Costs								-								-
A. Staff								-								-
1. Climate activities coordinator	Person/year	1	1	1	1	1	1	6	42,000	42,000	42,000	42,000	42,000	42,000	42,000	252,000
B. Management costs climate resilience investments								-								
1. Staff for implementing partner	Person/year		2	2	2	2		8	30,000	-	60,000	60,000	60,000	60,000	-	240,000
2. Travel expenditures for implementing partner	Person/year		2	2	2	2		8	360	-	720	720	720	720	-	2,880
Subtotal										-	60,720	60,720	60,720	60,720	-	242,880
Total Recurrent Costs								-		**42,000**	**102,720**	**102,720**	**102,720**	**102,720**	**42,000**	**494,880**
Total								-		**296,000**	**2,170,720**	**1,218,720**	**1,220,720**	**118,720**	**44,000**	**5,068,880**

Appendix 10: Economic and Financial Analysis

1. **Objective and scope**

The objective of this economic and financial analysis are: (i) to assess the financial viability of the development interventions promoted under FINCLUDE; (ii) to examine the impact of Project interventions on the net incomes of the households (HHs) targeted; and (iii) to provide the basis for the economic analysis of the Project.

Project benefits. Project interventions are expected to result in an extensive range of tangible and intangible benefits. Key quantifiable benefits include: (i) increased incomes from micro, small and medium enterprises, newly created or expanded through access to working capital or investment loans; (ii) employment opportunities, generated by the expansion of on-and off-farm activities, including self-employment; (iii) increased yields through the adoption of Good Agricultural Practices(GAP), better quality seed (hybrid) and investments in water efficient drip irrigation to improve productivity and enable year round cultivation; (iv) increased sales and net margins and more efficient output market. All these benefits will be generated by supporting access to finance and developing the capacity of producers and groups through business skills trainings, social mentoring and producer coaching. Intangible benefits include: (i) empowerment and mitigation of common social risks through by promoting socio-economic, gender and youth inclusiveness; (ii) improved nutrition due to access to more diversified and nutritious foods, higher income and improved stable production of Maize; (iii) environmental sustainability, through the use of water efficient drip-irrigation and soil management practices under as part of GAP.

Beneficiaries. The project will be implemented countrywide mainly in the Agro-Ecological Zones (AEZ) of Highveld, Middleveld and Lowveld. The total number of households benefiting from the project during the six years will be 8,500, of which 50% of beneficiaries will be women and 45% being youth, reaching approximately a population of 39,000 persons[1]. Farmers and rural households will benefit directly from one or more project activities, and indirectly through increased demand for farm labour, clustering and value chain linkages and nutrition-related outcomes. Table 1 below provides an overview of direct project beneficiaries form different interventions in the project lifespan.

Adoption rates. It was assumed that 60% of Farm-enterprises and 60% of the non-farm enterprises will adopt the project interventions and activities. These adoption rates are also reflected in Table 1.

Table 1: Number of households benefiting directly from FINCLUDE activities.

[1] Source: Central Statistics Office of Swaziland. Average household size equal to 4.7 people.

Table 1: number of beneficiaries

person per HH		4.7	Phasing per Project Year						
Target groups		target HH	Y 1	Y 2	Y 3	Y 4	Y 5	Y 6	Total
Farm- enterprises	***target***	***6800***							
adoption rate		75%	15%	39%	59%	61%	58%	60%	
no. of HH	100%	**5100**	5%	13%	20%	21%	20%	21%	**291%**
Farm type 1	30%	1530	78	205	310	318	303	316	**1530**
Farm type 2	30%	1530	78	205	310	318	303	316	**1530**
Farm type 3	40%	2040	104	274	413	424	405	421	**2040**
cummulative no. of HH		5100	260	944	1,978	3,037	4,048	5,100	
Non-Farm- enterprises	***target***	***1700***							
adoption rate		70%							
no. of HH	100%	**1190**	5%	13%	20%	21%	20%	21%	**100%**
Veterinairy services	45%	535.5	27	72	109	111	106	110	**535.5**
Small scale chicken processing	5%	59.5	3	8	12	12	12	12	**59.5**
non-agriculture i.e.Barbershop	50%	595	30	80	121	124	118	123	**595**
cummulative no. of HH		1190	61	220	461	709	945	1,190	
Total Project Target HHs	***target***	***8500***	320	1,164.27	2,439.03	3,745.55	4,992.80	6,290	
Total No. Distinct HH (assume 20% duplication via mutliple individual bens in same households	**20%**	*6,800*	*256*	*931*	*1,951*	*2,996*	*3,994*	*5,032*	
Total beneficiaries in project supported HH		*31,960*	*1,205*	*4,378*	*9,171*	*14,083*	*18,773*	*23,650*	

Financial analysis

2. Methodology

The methodology follows recent IFAD guidelines on Economic and Financial Analysis (EFA)[1] that recommend to use cost-benefit analysis which is based in the valuation in monetary terms of project cost and benefits. The financial analysis is only applied to the project activities that lend themselves to it and where sufficient data are available. All the parameters for the models are based on the information gathered during the first design mission in the Kingdom of Swaziland (KOS): primary data during field visits, interviews with government officials, farmers groups and stakeholders. Conservative assumptions were made both for inputs and outputs.

The financial analysis accounts for key quantifiable incremental benefits derived from: (i) business skills trainings, social mentoring and producer coaching; (ii) implementation of Good Agricultural Practices (GAP); (iii) use of improved seeds, fertilizers, chemicals, and pest and disease control; (iv) introduction of water efficient drip irrigation; (v) a gradual shift from subsistence stable crop production to more profitable vegetable crops under drip-irrigation; (vi) improved smallholder livestock rearing for consumption and commercial purposes; and (vii) the support to improve or start non-farm enterprises or self-employment.

3. Assumptions

The following assumptions underlie the financial analysis of the Project:

- The climate of Swaziland varies from tropical to near temperate. The seasons are the reverse of those in the Northern Hemisphere with December being mid-summer and June mid-winter. Generally speaking, rain falls mostly during the summer months, often in the form of thunderstorms. Winter is the dry season. Annual rainfall is highest on the Highveld in the West, between 1,000 and 2,000 mm (39.4 and 78.7 in) depending on the year. The further East, the less rain, with the Lowveld recording 500 to 900 mm (19.7 to 35.4 in) per annum. Variations in

[1] IFAD's Internal Guidelines for Economic and Financial Analysis of Rural Investment Projects.

temperature are also related to the altitude of the different regions. are used to define realistic standard size farm with most common crowing patterns for each zone.

- The analysis assumes sufficient water available for improving farming production and productivity. FINCLUDE will work closely with the Water Harvesting Small Earth Dam Project (2016-2021) under the Ministry of Agriculture and the Water borehole project under the Ministry of National Resources to ensure water availability for the project target beneficiaries.

- The use of water efficient irrigation like drip irrigation is low. Irrigation primarily focussed on large irrigation structures with dams and furrow. The use of some form of water catchment water tanks is becoming more common since rains have been reported more unpredictable. In the lowveld there is more use of borehole for land irrigation. For maintenance and irrigation fee/operation 5% of investment is assumed.

- The national average land holding in Swaziland is 2.5 ha per household. For the analysis three different farm models are defined each corresponding to an AEZ. Farm 1: Highveld; Farm 2 Middleveld; and Farm 3 Lowveld each with their own cropping pattern and possibilities for improvements.
- The national average household size is 4.7 persons.
- The target HHs in the Project area practice rain-fed agriculture, producing primarily maize and sugar beans as main staple, complemented with a small selection of various vegetables, under manual irrigation. There are opportunities for productivity and income increases by introduction commercial varieties / crops, drip irrigation, adopting Good Agricultural Practices and by better sequencing of crops under rain-fed conditions. The farm transition to more commercial crops will be gradual and is estimated conservative.
- The farm transition will be accompanied by gradual investment in drip-irrigation over a period of four years. Investing in a 1,000-1,500m2 drip irrigation per year to gradual increase production and transform a portion of the farm in more intensive farming of high(er) value horticulture crops to 0.5 hectare within the duration of the Project.
- The labour is a combination between family and hired. The skilled labour for agriculture and livestock activities has been valued at SZL 60 per day[1] and the family labour has been valued at SZL 30 per day. In all financial models family labour is included in the analysis to reflect the opportunity cost of labour.
- Home consumption for maize and dry beans is estimated in the models to assess the impact on food security and marketable surplus to the beneficiaries. Home consumption[2] per household per annum, is estimated for the primary stable maize at 864 KG and for dry beans at 203 KG.
- For most farmers the key production period is in and right after the summer months when there is abundance of rain water. Large portions of land remain unused in the dry season. With introduction of drip irrigation and water catchment (tanks) production could increase by more than 60% - 100%, because of more crop cycles, better harvests and higher yields.
- Farmers have extremely limited cash reserves to meet basic family needs. The cost of foregoing essential consumption (such as medical care and school fees) is very high under such circumstances. Therefore, the returns to cash investment in agricultural production must also be very high to make the trade-off attractive to the small farmer. Not only must the physical yield increase be high, but there must be an assured market: for the surplus at attractive prices. The EFA assumes a healthy market and will introduce a gradual investment over a period of four years.
- Increased supply from the local producers could be readily absorbed in the main markets around the main city Manzini and the capital Mbabane without adverse effects on the market price, and

[1] Labour Survey 2013/2014 Report, Ministry of Labour and Social Security.
[2] The National Disaster Management Agency, http://ndma.co.sz/

the reduced losses from local production closer to market create a competitive advantage in terms of COGS (cost of goods sold) for local producers versus imports.

- With training, technology support and input & marketing services, the rural households are capable of undertaking improved farming practices and thereby enhancing production at farm level. Furthermore, the Sector Development Facility in component 1 as well as the FINCLUDE Instrument for Risk Management (FIRM) in component 2 will stimulate investments in the selected commodity sectors, resulting in more market oriented production at farm level and more efficient operation of the VC as whole.
- The analysis assumes that not all target beneficiaries require the same support to adopt improved production techniques and to successfully access credit. A portion of the target beneficiary need project full package (training, mentoring and credit brokering) while others only need assistance in the credit brokering.
- Crop yields are in general very low because most of the cultivated soils have low levels of fertility, high acidity and poor moisture retention capacity. Furthermore, there is incidence of overgrazing and a wide spread of maize being mono-cropped year after year. FINCLUDE will continue to promote soil management, crop rotation and inter-cropping practices with leguminous and other drought-tolerant crops like sweet potato.
- In the current situation, all marketable surplus is sold fresh to local traders, buyers or middlemen. Households are not organised in marketing structures or institutions, but able to understand the benefits of joint marketing and are willing to organise themselves in groups for receiving any technology packages and output marketing.
- Market demand is assumed healthy for all analysed crops, especially in the winter-season window during which FINCLUDE beneficiaries would aim to sell their high value crops under drip irrigation. Furthermore, the FINCLUDE beneficiaries will also (indirectly) benefit from the IFAD Smallholder Market-led Project (SMLP) promoting smallholder production for household nutrition and sale of marketable surplus.
- The enterprise model for indigenous chicken rearing will be introduced in all three AEZ farm models. The Local (or village) chicken is popular in Swaziland and is preferred over industrial broilers, assuring a healthy demand and growth perspectives.
- The new semi-intensive smallholder production systems like Beef fattening and Piggery will build on the innovations introduced recently under other IFAD projects in Swaziland which provided and alternative local feedmix for the feedlot and introduced better animal care, which reduced mortality rates. Red meat / Cattle fattening will be introduced firstly at existing cattle farmers in the AEZ lowveld (Farm 3). Because the lowveld is close to the large sugar cane estates of which residual products are an important and low cost ingredient for the feed mix. Piggery will be firstly introduced at new and existing small piggery farmers in the AEZ middleveld (farm 2). For piggery it is important to be close to markets and urban centers which is in the Middleveld.
- Land in Swaziland is known as Swazi Nation Land or "king's land". People are given land on condition that it will be forfeit if they do not make use of it. The Project beneficiaries farm on Swazi Nation land or communal land, both are not excepted as collateral for commercial credit. It is assumed that the FINCLUDE Instrument for Risk Management (FIRM) in component 2 with a credit guarantee fund will assist in overcoming this hurdle for farmers in accessing initial credit.
- Credit is assumed available under the following conditions: Central Bank prime rate (currently 10.75%)[1] plus a 3% mark-up, the loan is capped at a maximum of 70% of the total investment, the cash contribution is set at 30% of the total investment and the individual minimum loan size is SZL 5,000,-. Furthermore, a grace period of half a year is assumed and a 2 year loan maturity term.
- FINCLUDE will work with commercial banks and not with MFI who have a default rate between 3% to 40%. The commercial banks have a relatively low default as they exercise more stringent measures with the approval processes and principal repayment follow-up and regime.

[1] For update prime rate: http://www.centralbank.org.sz/

- Prices reflect those actually paid/received by the farmers. These were collected during field visits, from the Ministry of Agriculture (MoA), National Agricultural Marketing Board (NAMBOARD), Central Statistics Office (CSO), and other IFAD projects (e.g. Smallholder Market-led Project, SMLP). All the prices used in the analysis are found on the Attachment 1 to this Appendix.
- Taxes. The financial indicator chosen for the analysis is the net income before tax. Income tax is not included in the EFA, since 80% of farmers are informal businesses and do not declare tax. Moreover, the Swaziland Revenue Authority (SRA) is working on a new more simpler income tax declaration method called Presumptive Tax in which the farmer would pay a percentage of the gross income as tax. The rates and thresholds for the Presumptive Tax are not yet set nor the timeline for it to be effective is known. The Project will assist the farmers in the new tax method, doing the tax returns, avoiding overstatement of tax liability and to benefit from some exemptions.

Financial models

In total 14 indicative financial models were developed to assess the financial viability of the promoted activities under the Project. A total of eight crop budgets have been prepared to assess farm productivity, gross margins and returns to labour for maize, sweet potato, beans, banana, cabbage, green pepper, onion and tomato. Furthermore, livestock models for indigenous chicken, red meat (beef-fattening) and piggery were also prepared, as well as three indicative enterprise models for non-farm enterprises. The non-farm enterprise models are: veterinary service, small scale chicken processing and barbershop. The incremental benefits have been estimated as the difference between a “without project (WoP)” and a “with project (WP)” scenario. In table 2 below a short description of the various models, the potential project activities and benefits is given.

Table 2: Summary description of models

Model	Potential Activities	Potential Benefits
Traditional crops: Maize Sweet Potato Beans Banana	Introduction of the minimum good practices learned from the other commodities trainings. Use of improved seeds, fertilizers, chemicals.	For maize very low national productivity: baseline equal to an average of 1.1[1] t/ha. Maize yield increased by a total of 50%, gradual achieved in four years. Low productivity: baseline for sweet potato and banana (6 t/ha); and beans (1 t/ha). Yields increased by 55% and stabilized in year.
Cash crops (vegetables): Cabbage/ Green pepper/ Onion/ Tomato	Introduction of drip irrigation. Training in GAP; Promotion and creation of producers clustering development; Producer coaching.	Low productivity: baseline for cabbage (12t/ha), green pepper (12t/ha), onion (13t/ha) and tomato (12t/ha). Yields increase are conservatively estimated to range between by 40 and 65% to be gradual achieved in the first four years. With drip irrigation, at least two cropping cycles can be achieved and higher of season price to be obtained.
Indigenous chicken poultry:	Training in improved feeding practices, including animal health.	Reduced mortality rates (see indigenous chicken model). Increased hatchability rates from 60% to 75%. Additional chicks/grower to be sold and eggs produced for self-consumption and sale. Incremental net margins.
Beef fattening; 1. Beef 2. Manure	Producer coaching, management and animal health and improved feeding trainings.	Establishment of the beef fattener enterprise with 7 cows per cycle (3 months each fattening cycle). Reduced mortality rates (8% to 7%) and increased dressing percentage (52% to 54%).
Pig fattening: 1. Porkers 2. Piglets/ sows 3. Manure	Training in improved feeding practices, including animal health, and producer coaching.	Establishment of piggery enterprise: starting in year 1 with 5 sows and 1 boar, reaching 10 sows in year 4. Reduced mortality rates.
Veterinary services	New business coaching, management, animal health and Artificial Insemination training	Establishment of (para)vets performing AI and animal care and treatment.
Chicken Processing	New business coaching, management, investment brokering	Slaughter and processing established in or close to a production cluster, developing the small livestock value chain.
Barbershop	New business coaching, management	Youth self employment support, outside the agriculture sector.

Crop budgets. The “WoP” is characterized by traditional subsistence farming with low yields, low technology adoption and high post-harvest loss rates. Besides, farmers face particular difficulties in marketing like production planning, bulking, transport, steady flow of marketable produce and buyer identification and negotiations.

In the “WP”, farmers are expected to increase productivity (including more production cycles) and decrease post-harvest losses, due to trainings in GAP, producer coaching, introduction of drip-irrigation. The promotion and creation of producer clusters and the facilitation and brokering for investment credit, will improve the use of improved seeds, fertilizers, chemicals, and jointly strengthen the market position and penetration for the farmer outputs.

Furthermore, the farmers are assisted in gradually transforming their crops from traditional stable crops to higher value cash crops. Produced with good agricultural practices under water efficient drip irrigation.

[1] Source: CFSAM 2015

Revenues are formed of agro-products sales and operational costs are mainly seeds, fertilizers, chemicals, labour and transport. Investments are mainly the drip irrigation equipment, starting with 0.2ha in year 1, to gradually expand to a total of 0.5ha in year four.

Maize, beans, banana and sweet potato budgets have been developed to represent the current situation in the field. The remaining crop budgets (vegetables), indigenous chicken, red meat are part of the focus commodities short-listed for this project.

Agro-Ecological Zones Farm Models[1]. The Kingdom of Swaziland has four different Agro-Ecological Zones (AEZ): Highveld; Middleveld; Lowveld; and Lubombo Range. FINCLUDE will focus mainly in three out four AEZ, being: Highveld; Middleveld; and Lowveld.

On the basis of the above listed crop budgets, livestock farm models and the agro-ecological zones described above, three different farm models, with an average land of 2.5 hectares[2], have been developed to illustrate a typical farm HH in each of the three AEZs. The underlying crop models are aggregated in the different agro-ecological zones targeted by the project: (i) Highveld- Farm model I; (ii) Middleveld- Farm model II; (iii) Lowveld- Farm model III, according to their specific ecological conditions and limitations.

The main intervention from FINCLUDE is to build capacity among producers and small entrepreneurs and improve their access to credit. Due to these actions, producers will apply new knowledge and adopt technology (e.g. drip irrigation) in order to improve productivities and crop cycles.

Farm Model I: Highveld:

This agro-ecological zone is characterized by an annual rainfall of up 1,200 mm and altitude around 700-800 meters above the sea level[3]. In the WOP situation, farmers grow mainly traditional maize, in particular the most productive yield in the country, sweet potato and fruits trees, but no beans.

The analysis in the “with project situation” claims for decreasing the allocation of land for maize from 79% to 69%, and increase vegetables. It is expected that about 1,530 households in the Highveld will benefit from the project.

Farm Model II: Middleveld:

In the Middleveld AEZ the annual rainfall is about 650-800 mm and altitude between 900-1,400 meters above the sea level[1]. Farmers cultivate mainly maize, sweet potato, pulses and fruits trees.

The “with project situation” shows a multi-cropping system with maize, sweet potato, pulses and vegetables. It is expected that about 1,530 households in the Middleveld will benefit from the project. during the six years.

Farm Model III: Lowveld:

Finally, the Lowveld agro-ecological zone has an annual rainfall of 450-625 mm and altitude of 250-400 meters above the sea level[1]. Farmers produce mainly Maize with the lowest national avaerge yield per hectare, beans and sweet potato.

In the “with project situation’ promotion of certain vegetables are more suitable for hot temperatures and less moist (onions and green pepper under irrigation) and sweet potato which is regarded as a drought tolerant crop. Around 2,040 households in the Lowveld will benefit from the project during the six years of the project implementation.

A summary of the crop pattern for each farm model in the three AEZ is presented in Table 3, below.

[1] Central Statistics Office, 2016, Swaziland Livelihood Baseline and MoA, 1997, Towards sustainable production and land Rehabilitation in Swaziland.
[2] Technical efficiency of maize production in Swaziland: A stochastic frontier approach, Dlamini et al. (2012).
[3] Swaziland Livelihood Baseline Profiles -Swaziland Vulnerability Assessment Committee - February 2016.

Table 3: Agro-Ecological Zones (AEZ) Farm Models Summary.

			WOP		WP	
		Cropping patterns	**%**	**ha**	**%**	**ha**
1. Highveld- Farm model I	1	Maize	78%	1.95	67%	1.68
Average area 2.5 ha	2	Sweet potato	9%	0.23	10%	0.25
	3	Beans	0%	0.00	0%	0.00
	4	Banana	3%	0.08	2%	0.05
	5	Cabbage	6%	0.15	10%	0.25
	6	Green pepper	2%	0.05	4%	0.10
	7	Onion	1%	0.03	4%	0.10
	8	Tomato	1%	0.03	3%	0.08
			100%	**2.50**	**100%**	**2.50**
2. Middleveld - Farm model I	1	Maize	63%	1.58	51%	1.28
Average area 2.5 ha	2	Sweet potato	9%	0.23	16%	0.40
	3	Beans	12%	0.30	8%	0.20
	4	Banana	6%	0.15	3%	0.08
	5	Cabbage	6%	0.15	8%	0.20
	6	Green pepper	1%	0.03	5%	0.13
	7	Onion	1%	0.03	3%	0.08
	8	Tomato	2%	0.05	6%	0.15
			100%	**2.50**	**100%**	**2.50**
3. Lowveld- Farm model III	1	Maize	39%	0.98	30%	0.75
Average area 2.5 ha	2	Sweet potato	30%	0.75	35%	0.88
	3	Beans	25%	0.63	15%	0.38
	4	Banana	0%	0.00	0%	0.00
	5	Cabbage	1%	0.03	4%	0.10
	6	Green pepper	1%	0.03	5%	0.13
	7	Onion	1%	0.03	4%	0.10
	8	Tomato	3%	0.08	7%	0.18
			100%	**2.50**	**100%**	**2.50**

Financial model results. All models, except banana show positive NPV and IRR. The expected financial benefits are illustrated in table 4: Financial Model Budget Summary, presented below. Indicators selected include net income at full development after labour, IRR and NPV. It is understood that such net incomes may not be achieved in one year; thus a gradual and conservative achievement of the expected benefits has been used in the analysis. Results suggest a move to producing less traditional crops, especially maize with a low NPV and IRR to more profitable and higher value vegetable crops, which can have a significant positive impact on Farm HHs. Of the three indicative enterprise models the veterinary service is the least robust with a NPV of 27,000 and IRR of 46%. It is very likely that veterinary services will be combined with other agricultural services like input (feedmix) supplier, etc., to supplement the income.

Table 4: Financial Model Budget Summary.

Farm / crop / enterpise budgets	Post-harvest yields			Net income (SZL) after labour			NPV (GEL)	IRR
	WOP	*WP* [1]	*Increm.*	*WOP*	*WP* [1]	*Increm.*		
Highveld Farm I	n/a	n/a	n/a	6976	33634	382%	95,311	127%
Middleveld Farm II	n/a	n/a	n/a	27255	122728	350%	295,569	81%
Lowveld Farm III	n/a	n/a	n/a	16966	85528	404%	321,800	#GETAL!
Maize	159	1568	886%	-2899	-2573	11%	1,574	19%
Sweet potato	6080	10108	66%	16324	22183	36%	15,492	67%
Dry beans	652	1530	135%	3266	7832	140%	9,289	51%
Banana	5776	9097	58%	158	4073	2478%	- 479	10%
Cabbage	12920	23014	78%	40052	56297	41%	53,680	46%
Green pepper	13680	25992	90%	36334	52118	43%	41,320	51%
Onion	11780	22382	90%	29939	39691	33%	13,867	24%
Tomato	12920	20712	60%	50462	68795	36%	63,657	85%
Indigenous Chicken	n/a	n/a	n/a	193	2514	1199%	2,971	20%
Beef fattening	n/a	n/a	n/a	-4728	7787	265%	63,841	n/a
Piggery	n/a	n/a	n/a	18932	81057	328%	159,203	52%
Veterinairy Service	n/a	n/a	n/a	n/a	9420	n/a	27,335	46%
Chicken Processing	n/a	n/a	n/a	n/a	126111	n/a	449,059	67%
Barbershop	n/a	n/a	n/a	n/a	8280	n/a	34,643	178%

[1]WP at full development

Farm model results. The farm models are composed by different crops in an area of 2.5 hectares plus indigenous chicken introduced in each AEZ. The livestock enterprise red meat(beef fattening) is introduced in the Lowveld Farm 3 model to ensure proximity to an important feed mix ingredient coming from the sugar estates which are predominantly situated in the lowveld. Piggery will be introduced in the Middleveld Farm 2, where it is close to urban centres and markets, which his important for a successful start of piggery. The expected financial benefits of the three farm models are illustrated in table 5, below.

Table 5: AEZ Farm Models financial results

		Highveld: Farm I			Middleveld: Farm II			Lowveld: Farm III		
Farm models	Unit	WoP	WP	Incremental	WoP	WP	Incremental	WoP	WP	Incremental
Farm size	ha	2.50	2.50	0	2.50	2.50	0	2.50	2.50	0
Total investments	SZL	1,185	10,998	9,813	27,670	41,074	13,404	304	12,008	11,704
Total investments	USD	93	865	771	2,175	3,229	1,054	24	944	920
Annual returns	SZL	6,976	31,986	25,010	27,255	62,023	34,768	16,966	82,717	65,751
Annual returns	USD	548	2,515	1,966	2,143	4,876	2,733	1,334	6,503	5,169
NPV @11%	SZL		95,311			295,569			321,800	
IRR	%		127%			81%			#GETAL!	

FINCLUDE empowers farmers to make market oriented business decisions to invest in higher value crops and enterprises. FINCLUDE will broker the necessary credit from commercial FIs. To ensure sustainable business improvement and inclusion of businesses in the financial sector it is expected that the target farmers will invest from their own resources (sometimes assisted with loans) in transforming their traditional farming in a more commercial oriented farm. The WOP levels are positive in all three farm models and suggest there is room for investment. It is also understood that not all farmers are willing or able to invest in improving their HH farming activities. To reflect this in the EFA a conservative adoption rate of 60% is applied.

Enterprise models. The project will broker finance to support targeted investments to establish for example: cattle feedlots and piggery enterprises, providing additional income and to create job opportunities in rural areas. The project interventions to increase efficiency will be animal health and care, feeding trainings, producer coaching and credit brokering.

The establishment of the **beef fattening enterprise** will start with 5 cows per cycle during the first year reaching 7 cows at full development. The duration of the fattening period is equal to 3 months. The initial investment required to start-up the business is estimated at 9,100 SZL. This enterprise model shows an annual income of 7,800 SZL at full development. More details is provided in table 6, below. FINCLUDE will provide trainings to improve animal health and feeding where mortality rate during fattening experience a slightly decrease from 8% to 7%. Also the beef fattening enterprise model assumes a WOP situation where the cattle owner rears cattle more as a cash security rather than a commercial enterprise of buying, fattening and selling of cattle on a regular basis.

For the establishment of a **piggery enterprise**, a slightly larger investment is needed in the form of a simple brick structure with four rooms, concrete floor and feeding trough for four pigs to begin with. The average annual investment is estimated at 16,000 SZL (1,250 USD). It is expected that the farmer/entrepreneur will make this investment each year until year Y4 to expand the piggery to house a total of 16-20 pigs. The annual net return will be as much as 81000 SZL (7,400 USD) per year at full development, representing a viable and attractive economic activity. The piggery model shows an initial breeding stock of 4 sows and 1 boar in year 1, reaching 8 sows and 2 boars in year 4. The project will support the (new) business expansion by producer coaching, animal care and health trainings in order to reduce mortality rates and credit brokering. More details is provided in table 6, below.

Table 6: Financial results for livestock enterprise models

Enterprise models		Beef fattening	Piggery
Total investments	SZL	9,183	122,961
Total investments	USD	722	9,667
Annual returns*	SZL	7,787	66,257
Annual returns*	USD	612	5,209
NPV of gross benefits @11%	SZL	881,111	1,639,737
NPV of gross benefits @11%	USD	69,270	128,910
NPV of costs @11%	SZL	752,725	1,082,723
NPV of costs @11%	USD	59,176	85,120
Cost/Benefit	ratio	1.17	1.51
IRR	%	n/a	52%

* At full development

Non-farm enterprise models. The non-farm enterprise models, veterinary services, small scale chicken processing and barbershop are assumed as new business opportunities closely related to clusters. In for example a livestock cluster, starting a veterinary service or chicken processing can be a good and viable opportunity. The barbershop is an indicative model to support youth starting a small enterprises completely outside the agriculture sector. Since these enterprise are assumed new businesses, they grow gradually to full capacity in year four. More details can be found in the Excel tables.

Financing plans. For the Farm Models 1, 2 and 3, the livestock enterprise models and the non farm enterprise models a financing plan is developed to assess whether the mix of anticipated funding sources (medium and long term commercial credit and beneficiary contributions) would be sufficient and adequate to cover the investments needs of newly established and existing enterprises or farm systems. To assess the impact and the affordability of the loan, a Cash flow analysis is part of the financing plan. The financing plan for farm 3 is provided in table 7, to illustrate a typical finance situation. The financing plans for the other models follow the same structure, with the only difference that the loan maturity varies.

Table 7: Financing plan for Farm model III

Financing Analysis (SZL)													
	Unit		Y1	Y2	Y3	Y4	Total						
Investments	SZL		12,008	3,057	4,274	3,766							
Loan	SZL	70%	8,405	2,140	2,992	2,636							
Beneficiary Contribution	SZL	30%	3,602	917	1,282	1,130							
Investment loan	SZL		8,405	2,140	2,992	2,636							
Repayment Period	years	2.00											
Grace Period	years	0.50											
Interest Rate	%	13.75%											
			Without	With Project									
Long-term Loan			Project	1	2	3	4	5	6	7	8	9	10
incipal Repayments Loan 1	SZL	8,405		2,802	5,604								
incipal Repayments Loan 2	SZL	2,140			713	1,426							
incipal Repayments Loan 3	SZL	2,992				997	1,995						
incipal Repayments Loan 4	SZL	2,636					879	1,757					
Interest Repayments	SZL	3,706		1,156	1,065	608	637	242					
Loan Repayments	SZL	16,173		2,802	6,317	2,424	2,873	1,757					
Loan Outstanding	SZL			5,604	1,426	1,995	1,757	0					
Cash Flow Analysis													
Items			Without	With Project									
			Project	1	2	3	4	5 to 10	6	7	8	9	10
Inflow													
Production Revenues	SZL			173,029	192,556	226,403	236,970	236,970	236,970	236,970	236,970	236,970	236,970
Loans	SZL			8,405	2,140	2,992	2,636	0	0	0	0	0	0
Beneficiary's Contribution	SZL			3,602	917	1,282	1,130	0	0	0	0	0	0
Total Inflow				**185,037**	**195,613**	**230,677**	**240,736**	**236,970**	**236,970**	**236,970**	**236,970**	**236,970**	**236,970**
Outflow													
Production & Investment Co	SZL			136,078	130,658	157,847	154,254	154,896	150,747	155,656	150,747	154,947	151,443
Repayment of Loans	SZL			2,802	6,317	2,424	2,873	1,757	0	0	0	0	0
Repayment of Interest on Lo	SZL			1,156	1,065	608	637	242	0	0			
Total Outflow				**140,035**	**138,039**	**160,878**	**157,764**	**156,895**	**150,747**	**155,656**	**150,747**	**154,947**	**151,443**
Gross Income after Financi	SZL			**45,002**	**57,574**	**69,799**	**82,972**	**80,075**	**86,223**	**81,314**	**86,223**	**82,023**	**85,528**
Incremental cash flow after financing				**45,002**	**57,574**	**69,799**	**82,972**	**80,075**	**86,223**	**81,314**	**86,223**	**82,023**	**85,528**

Economic analysis

Methodology and assumptions

The methodology used is the cost-benefit analysis that reflect the economic value to society of goods and services, often referred to as "economic opportunity costs" or "social opportunity costs". The period of the analysis is 20 years to account for the phasing and development period of the proposed project activities. The scenario presented in the economic analysis is conservative, the analysis that appears below is indicative and demonstrates the scope of profitability originated from the conditions prevailing at the time of the preparation.

Discount rate. This rate should provide the alternative financial returns/opportunity costs to the investor. A Financial discount rate is estimated at 11% and the economic discount rate is estimated at 7%. Details on the sources used for estimating the discount rates are provided in table 8, below.

Table 8: the financial and economic discount rate estimation

Economic Discount Rate

Swaziland Government Bonds 9 years	10.25%
Average Rate	**10%**

Financial Discount Rate

Swaziland Government Bonds 9 years	10.25%
Commercial Bank rate	13.75%
Prime rate	10.75%
Average Rate	**11.6%**

Standard conversion factor. The standard conversion factor has been calculated on the basis of the World Bank (WITS) data according to the following formula:

$SER = OER \times \{[(M+TM)+(X-TX)]M+X\} = OER\ x\ SCF$

SCF= SER/OER

where SER: Shadow Exchange rate

OER: Official Exchange rate

M: Total imports (an average of five years would be advisable)

X: Total Exports (an average of five years would be advisable)

TM: Duties on Imports

TX: Export Taxes

SCF: Standard Conversion Factor

Financial prices have been converted to economic by applying a standard conversion factor (0.92), calculated according to the formula above, to all traded goods and services; for the non-tradable goods the conversion factor applied is equal to 1. The economic prices of hired labour costs were adjusted based on conversion factor of 0.719 to account for the unemployment rate, which is reported at 28.1%[1.] All models are expressed in 2018 constant prices. The analysis builds on primary data collected by the design team during the first design mission in June/July 2017 and updated in January 2018, provided by the Government of the Kingdom of Swaziland and derived from other on-going IFAD projects (e.g. Smallholder Market-led Project) in the country. Conservative assumptions and parameters have been applied, in order to avoid over-estimation of benefits and provide realistic results.

Net Present Value (NPV) and Economic Internal Rate of Return (EIRR). The net present value of the project over a twenty-year period is calculated to be 64,366 (USD 000) and the economic internal rate of return is estimated to be 32.2% at an economic discount rate of 10%. The summary of the economic analysis is presented in table 9 in this appendix.

Sensitivity analysis: A sensitivity analysis was conducted to assess the changes in NPV and EIRR due to variations in the future benefit stream of costs or delay in project implementation. The Project remains profitable under a wide range of project scenarios but remains sensitive particular in downward variations of output prices and in implementation delays of 2 years, as can be seen in table 8 the sensitivity analysis below.

[1] Labour Survey 2013/2014 Report, Ministry of Labour and Social Security.

Table 8: sensitivity analysis

Sensitivity Analysis		ERR	NPV
Base scenario		32.2%	69,200
Project benefits	-10%	29.9%	59,420
Project benefits	-20%	27.4%	49,641
Project benefits	-50%	18.4%	20,301
Project benefits	10%	34.5%	78,980
Project benefits	20%	36.6%	88,760
Project costs	10%	30.1%	66,340
Project costs	20%	28.2%	63,481
Project costs	50%	23.7%	54,902
1 year lag in ben.		26.7%	53,157
2 years lag in ben.		22.8%	42,954
Adoption rate	-10%	28.3%	54,212
Adoption rate	-20%	24.0%	39,224
Without enterprise Piggery		26.0%	38,558
Without enterprise Red meat		25.0%	41,433

Table 9: Economic analysis (USD)

Table 9: Project Economic Analysis - Full Project Cost																						
(constant 2018 values)																						
(US$ 000)		PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8-20	PY9	PY10-15	PY11	P12	PY13	PY14	PY15	PY16	PY17	PY18	PY19	PY20
Total Programme Net Benefits		-235	-216	689	3062	6439	10335	15390	17884	19788	20261	20399	20402	20606	20432	20538	20401	20506	20401	20506	20409
Programme Costs																					
Investment Costs		5805	3531	5769	6070	5521	5489	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Recurrent Costs		610	621	633	635	635	640	640	640	640	640	640	640	640	640	640	640	640	640	640	640
Total Programme Costs		6415	4152	6401	6705	6156	6129	640	640	640	640	640	640	640	640	640	640	640	640	640	640
Total Project Incremental Net Benefits		-6650	-4368	-5712	-3643	284	4206	14750	17244	19147	19621	19759	19761	19966	19791	19897	19761	19866	19761	19866	19769
EIRR	**32%**																				
NPV @10% (USD 000)	64,366																				

Further details are provided in the enclosed excel files.

Appendix 11: Draft project implementation manual

Note: Key Appendixes: 2, 4, 5, 6, 7 & 8 have been written to a level of detailed intended to be easily adapted to become the draft PIM to accelerate start-up.

Annotated table of contents

	Section and Sub-Section	**Notes**
Part 1: Introduction, Purpose, Strategy And Cross-Cutting Issues		
1	**Introduction**	
	Introduction to FINCLUDE	
	Introduction to the PIM	
	Intended users of the PIM	
2	**Purpose Of FINCLUDE**	
	Reason for FINCLUDE	Brief summary of the diagnosis that lead to the design of FINCLUDE.
	Expected results	Description of the expected results of FINCLUDE with reference to the Results Framework (which will be an annex).
3	**Implementation Strategy**	Describes key elements of the FINCLUDE approach, how these elements work together, the assignment of roles, the phased approach to implementation in different clusters, the integration of the components into one coherent project.
4	**Principles and Approach**	
	Market-driven	Define how the market orientation of FINCLUDE will be mainstreamed in all activities.
	Private sector-led	Define how private actors (farmers, businesses, ACs etc) will lead the investment prioritization and project activities. Explain role of MCMs and other tools in achieving this. Relate this to the functioning of the Supply of Rural Finance activities and other project activities.
	Inclusiveness	Defines core principles of FINCLUDE for inclusive dialogue and participation at all levels, including role of social mentoring.
	Gender Mainstreaming	Defines core principles for mainstreaming gender in FINCLUDE
	Mainstreaming Climate Resilience	Defines how CCA / climate resilience is mainstreamed in all parts of FINCLUDE and how this is systematically verified as well as the function and operation of Component 3 and its integration with the project.
Part 2: Components, Outputs And Activities		
5	**Component 1: Inclusive Cluster Development**	
	Results and Performance Measurement	Defines the time-bound results of Component 1 and how performance will be measured.
	Cluster Brokering and Facilitation	Describe the objectives and overall approach. Describe the detailed processes of initiating and running an ongoing MCM and cluster development.
	Market oriented mobilization, business skill mentoring and social mentoring	Describe the objectives and approaches to be used. Describe the implementation arrangements include the role of the cluster mobilizers and peer mentors and the functioning of the Regional hub offices.
	Sector Development Facility	Describes its purpose and operation. Describe activities eligible to be supported and any specific conditions / requirements. Describe the mechanisms to be used for selection, approval and implementation of activities. Prepare the SDF Guidelines as a separate stand-alone document.
6	**Component 2: Improving Supply of Rural Finance**	
	Results and Performance Measurement	Defines the time-bound results of Component 2 and how performance will be measured.
	Addressing the information divide	Describes the three information platforms to be developed and

	Section and Sub-Section	Notes
	between supply and demand for credit and other financial services	operated to support the finance industry: i) Financial demand and supply database – including perceptions of customers and suppliers and market opportunities; ii) Savings and credit group (SCG) database, to inform on SCG's location, type (rotating, accumulating), no of members, size and frequency of member contributions, capital and lending portfolio, size duration, type and cost of loans, interest in becoming formal etc, and; iii) Credit history tool, initially as a tool for the project and its partners, through which financial institutions are able to acquire credit history of loan applicants, initially covering clients with loans facilitated by the project.
	Partnerships with FIs to increase loan supply	Describe the focus, objectives and expected operational modalities of the partnerships with the banks and the associated FIRM. Briefly describe the scope and focus of the other partnership-related activities envisaged, including: • a feasibility study on the potential for establishing a new market-based MFI; • development of one or more SCG apex organizations; and • further development of Mobile Money, building RFEDP initial support, to a) use mobile money to reduce transaction cost for the banks and, by extension, lower interest rates charged to beneficiaries, and b) introduce mobile money credit, savings and remittance related products.
	Financial Instrument for Risk Management (FIRM):	Outline rationale and objective of FIRM and key operating principals. Develop separate operational guidelines/operating agreement with CBS. Define performance criteria to be met before release of funding tranches into the FIRM.
	Capacity enhancement and policy development facility (CEPD)	Develop simple standalone guidelines for scope and operation modalities of the CEPD.
	Savings promotion and remittances	Describe specific objectives on savings and remittance and how this relates to the wider project; Outline how the various activities under the project that form part of this work stream and the roles/responsibilities for implementing them.
	Partnerships to increase the quality of credit demand on wider scale	Describe the objective of such partnerships and the "offer" that FINCLUDE will make to such partners. Clearly define how the capacity of external beneficiaries will be assessed in terms of the quality of demand to be eligible to be introduced to partner FIs for lending under the FIRM.
	Integration with Comp 1	Describe the functioning of the integrated project teams at the regional hub level, the skills and coaching needed for project staff related to Comp 2.
	Component 3: Climate resilient decision making and investments	
	Results and Performance Measurement	Defines the time-bound results of Component 3 and how performance will be measured.
	Climate information services	Describe the intended outcomes, key approaches and step in the process. Outlies roles and responsibilities and links with partners. Outline design and delivery arrangements for user capacity building, e.g. via PICSA.
	Improving access to climate finance	Describe the process and key steps, including the Climate Finance Fair and resulting roadmap. Describe role of national working groups and other stakeholders in the process.

Part 3: Implementation arrangements		
7	**Roles And Responsibilities**	
	The Steering Committee	Include Terms of Reference for Steering committee and Code of Conduct for SC Members.
	MoF	As Chair of SC and as Representative of the Borrower.
	CFI	As Executing Agency and host of the PMU.
	Regional Hub Offices	Include roles, responsibilities and also organizational arrangements Describe how the participation of the private sector and farmers will be achieved in the regional hub Offices. Describe team and management arrangements for cluster development, cluster mobilization, social mentoring teams and roles of staff from different implementing partners.
	Implementing partners	Relative roles of each implementing partners and their assigned staff. Outline specific financial/logistical/administrative arrangements for each partner as needed.
8	**Planning, budgeting**	
	Results based planning and resource allocation	
	Preparation and consolidation of the AWPB	
	Key approval and reporting instruments	
9	**Monitoring, Evaluation And Reporting**	
	Overview	
	GoS reporting, DCED Standard and RIMS+	Describe how these work together as a single unified M&E framework and system.
	Results chains	Describe their purpose and how they should be prepared. Describe how they are to be used communicating the project, identifying intervention points and tracking key indicators of change in the VCs.
	M&E Matrix	Provide template and guidance for preparing a practical M&E Matrix to guide development of MIS and other M&E activities.
	MIS	Describe main elements of MIS and process to develop, test and use it. Describe how the various databases will feed into the overall project M&E framework. Describe main audience and users of expected information, reports and analysis.
	Major Impact Survey	Describe main required surveys, including cluster baselines and annual cluster tracking surveys.
	Rolling baselines for clusters	Describe approach to be followed for rolling baselines including: • Household survey; • Traders/business survey; • Key informant interviews; • Secondary data.
	Cluster Tracking	Describe purpose and main elements of clusters to be tracked, frequency of monitoring and means of tracking.
	Farmer Tracking via household record books (Farm Diaries)	Describe purpose and provide example of household books for one crop and one livestock commodity.
	Other Surveys	Outline expect requirements for other surveys, including annual outcome survey.
	Reporting	
10	**Knowledge management and communication**	
	KMC Strategy	Outline purpose and process for preparation.
	KM Themes	Outline initial set of KM themes and KM product deliverables over first 24 months.
	Communications	Describe purpose and types of communication. Describe roles, responsibilities and resources for communication at each level in the project.

11	**Financial Management, Procurement And Administration**	
	Financial Management	Describe detailed practices and procedures. Basis to be as agreed in financing agreement.
	Procurement	
	Administration	
12	**Implementation Work Plan**	
	Work Plan	Presents a consolidated, Gantt-Chart format implementation plan including highlighting of critical path and cross-linkages between components.

Appendix 12: Compliance with IFAD policies

1. The FINCLUDE is fully aligned with the IFAD's strategic framework 2016-2025. The programme aims to enable Swazi smallholders and micro-entrepreneurs to become commercially competitive and more resilient. This will be accomplished by increasing returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through efficient public sector investment.

2. FINCLUDE will contribute to the first 2 strategic objectives of the IFAD strategic framework 2016-2025 namely: i) Increase poor rural people's productive capacities; and ii) Increase poor rural people's benefits from market participation.

3. FINCLUDE's design is also fully in accordance with IFAD's targeting policy as detailed in 'Reaching the Rural Poor' (2008). The target groups have been profiled and beneficiary groups for proposed project activities identified. The completed targeting checklist is included as an annex to Appendix 2. On gender, FINCLUDE is guided by the three succinct precepts set out in the IFAD Policy on gender equality and women's empowerment (2012): to promote economic empowerment to enable rural women and men to participate in and benefit from profitable economic activities; enable women and men to have equal voice and influence in rural institutions and organizations; and achieve a more equitable balance in workloads and in the sharing of economic and social benefits between women and men.

4. The new Results and Impact Management System (RIMS), core indicators have been included under the log frame and the M&E system. These indicators will feed into IFAD's Operational Results Management System (ORMS).

5. FINCLUDE is fully compliant with the IFAD rural enterprise policy as it intends supporting the development of more formalized agribusiness linkages for smallholders and micro entrepreneurs for better income generation and resilient links to markets.

Appendix 12 B: SECAP Review Note

Major landscape characteristics and Issues

Socio-cultural context

6. *See appendix 2*

Natural resources

7. **Main agro-ecological zones**. The Kingdom of Swaziland covers an area of 17,360 km^2 and can be divided into six agro-ecological zones with significant variation in geology, climate and landforms; see figure 1. The main ecosystems include montane grasslands, savanna-woodland mosaic, forests and aquatic systems.

Figure 24: Agro-ecological zones in Swaziland

Agro-ecological zone	Climate characteristics	Agricultural commodities
Highveld Alt: > 900 m	*Rain* ~ 850-1400 mm *Temp* 12 – 20 (17) °C	Cattle, Maize, baby vegetables, baby corn, Jatropha, coffee, mushroom, fruit trees
Upper Middleveld Alt: 600-900 m	*Rain* ~ 700-800 mm *Temp* 15 – 24 (20) °C	Maize, baby vegetables, indigenous maize, cassava, jugo beans, , groundnuts, fruit trees
Lower Middleveld Alt: 400 – 600 m	*Rain* ~ 600-650 mm *Temp* 16 – 25 (21) °C	Cowpeas, cassava, Irish potatoes, sorghum, pulses, tubers, jugo beans
West Lowveld Alt: 250-400 m	*Rain* ~ 400-550 mm *Temp* 18 – 26 (22) °C	Cattle rearing, cassava, pulses, cotton
East Lowveld Alt: 200-300 m	*Rain* ~ 550-625 mm *Temp* 17 – 27 (22) °C	Cattle rearing, cassava, pulses, cotton
Lubombo Range Alt: 250-600 m	*Rain* ~ 650-800 mm *Temp* 17 – 26 (21) °C	Cattle, Maize, pulses, sweet & irish potatoes, leafy vegetables, pumpkins and melons.

8. Sources: Swaziland's Third National Communication to the United Nations Framework Convention on Climate Change, 2016; Central Statistics Office, 2016, Swaziland Livelihood Baseline & Ministry of Agriculture and Co-operatives, 1997, Towards sustainable production and land rehabilitation in Swaziland.

9. **Soils and water.** The country comprises a large proportion of high-quality arable and ranching land. There are four main river systems: the Komati and the Lomati, the Mbuluzi, the Usuthu and the Ngwavuma; which all rise from South Africa and flow eventually to Mozambique. The country has 11 major dams providing water for irrigation, domestic and industrial purposes. Swaziland is however a water scarce country with water catchments threatened by increasing population, rising per capita domestic water use and expansion of agricultural land. Irrigated sugarcane is the main agricultural water user. The withdrawal of water from the riverine system is limited and subjected to agreement with its neighbouring countries.

10. **Agriculture.** With a single rainy season spreading out over a 4 to 5 months period, over seventy per cent of total population relies on subsistence and predominantly rainfed agriculture systems. Majority of farming plots are part of Swaziland National Land (SNL) and falls under traditional communal tenure, held by the king in trust for the nation (see further details in Appendix 2 on poverty, gender and targeting strategy). Average farm size is 1.3 ha and agricultural productivity is very low and subjected to erratic and unreliable rainfall. Most cultivated crops are maize, legumes, tubers, fruit tree, sweet and Irish potatoes, sorghum, vegetables, pumpkins, groundnuts, cotton, cassava, small stock and cattle amongst many others. Maize is cultivated by over eighty per cent of farmers across the country. There is a wide variation of crop suitability between the six agro-ecological zones. The cool to warm temperatures found in Highveld and Middleveld zones are highly conducive for growing diversified food crops including maize while the hotter and drier climate of Lowveld zones are more adapted for cattle rearing and extensive grazing.

11. **Natural Resources Management.** Along with crop production, cattle's rearing is wide spread in the country and provides financial security to many rural households on SNL Due to its dual function as cultural and economic assets; rural households tend to overstock leading to free-ranging and overgrazing of communal grazing lands. This exacerbates loss of vegetation covers, widespread land degradation and soil erosion in certain areas (e.g. Highveld and Lowveld) of the country. Unfortunately, there is limited information on the magnitude and severity of the process[169].

Climate

12. **Current and future climate.** Swaziland has a humid sub-tropical climate characterized by wet hot summers and cold dry winters. About 75 % of annual rainfall falls in the single rainy season (October to March) followed by cold and dry winters which last from April to September. Historical climate analyses show increases of annual mean temperature across the different regions in the country of about 0.1 - 0.2°C per decade with the most significant warming occurring between 2000 and 2010[170]. In line with global trends, this increase is expected to continue, and by 2050 annual mean temperatures are expected to be between 1.5 and 2.5°C higher than the reference period of 1960-1990.

13. Rainfall patterns have changed and point towards a decrease in the number of rainy days, more intense rainfall events and higher frequencies of dry spells and droughts. Future projections for precipitation are however uncertain. While some models indicate a negative change, others project a positive change especially over the northern Highveld. All conclude that there is a higher risk of extended periods without rain, followed by extreme rainfall events that will result in localised flooding. Beyond changes in total or mean summer rainfall, it is expected that certain intra-seasonal characteristics of seasonal rainfall, such as onset, duration, dry spell frequencies and rainfall intensity, will be more variable in the coming decades.

14. **Occurrence of droughts and floods.** Over the last three decades, successive years of droughts (1983, 1992, 2001, 2007, 2014 and 2016)[171] led to low water levels in dams, poor replenishment of ground water sources, low agricultural yields, poor pastures and vegetation covers. In 2015/2016, the country experienced a severe El Niňo related drought and in February 2016, the Government of Swaziland declared a state of emergency. Rural producers reported serious crop and livestock losses in large parts of the country, with a higher impact on lower altitude areas (Shiselweni and Lubombo regions). This resulted in increased food insecurity, dependence on food aid and an unusual net importation of staple food. In addition, the heat stress caused animal feed and water shortages, leading to increases in feed prices. Thus, smallholder farmers opted for small ruminants such as goats and sheep which can better adapt to the increasingly hot and dry conditions due to their small body weight, well developed water retention in the kidney and lower metabolic rate[172].

Potential project's social, environmental, and climate change impacts and risks

15. **Key potential impacts**

16. FINCLUDE's expected positive impacts are:

(a) Increased incomes from micro, small and medium enterprises;

(b) Employment opportunities, both on-and off-farm;

(c) Increased yields and higher margins for agricultural enterprises;

(d) Improved nutrition.

[169] The Kingdom of Swaziland, 2016, Swaziland Third National Communications to the United Nations Framework Convention on Climate Change, Ministry of Tourism and Environmental affairs.
[170] Ibid.
[171] Oseni T.O, Masarirambi M.T., 2011, Effects of climate change on Maize (Zea Mays), production and food security in Swaziland, American-Eurasian J. Agric. & Environ. Sci., 11 (3): 385-391.
[172] Dzama K, 2016, Is the livestock sector in southern Africa prepared for climate change? Policy briefing 153, South African Institute of International Affairs.

(e) Potential negative impacts include:

(f) Increased pressure on the environment due to intensified agricultural production and resulting waste streams / increased risk of contamination (e.g. agrochemicals);

(g) Uneven and/or politicized distribution of project benefits leading to social tension;

(h) Increased competition for scarce natural resources (e.g. water, soil, fodder).

Sensitivity to climate change and adaptation options

17. As the recent El-Niño induced drought has shown, Swazi's rural economy is highly sensitive to climate events and trends. The 2016 event caused a 64% reduction in production of maize, with important knock-on effects on the livestock sector as well. About half of all Swazis were estimated to experience livelihoods deficits as a result of the drought. Water stocks dwindled and rationing affected both hydropower energy supplies as well as sugarcane production, a major economic force in the country.

18. The likelihood of FINCLUDE achieving the development objective is therefore undeniably affected by climate. As the project is focused on financial inclusion, adaptation options will need to be seen from the common entry point of risk reduction. A comprehensive strategy aimed at reducing risks has been integrated into the project, including (i) better understanding risks through improved climate services provision; (ii) facilitated sessions with both farmers and loan officers to use climate information for decision making; (iii) facilitating access to improved agricultural inputs; and (iv) facilitate investments in climate resilience investments such as fodder production and animal feed formulation so as to help smallholder farmers to adjust feed formulations from season to season and maintain the growth performance of their animal while minimizing their cost depending on the price of different ingredient options for their feed at any given time. The project will also build synergies in terms of best water management practices with SMLP/CSARL project as well as RDF, micro project funds and any other relevant initiatives.

Environmental and social category (B)

19. The project environmental and social category is **B**. The project's potential negative impacts are of light severity, site-specific and can be remedied using readily available measures. A large part of project interventions will be delivered through financial intermediaries; therefore the mitigation strategy will include specific measures to build the capacity of those financial institutions to better understand and manage risks.

Climate risk category (Moderate)

20. The project's climate risk classification is **Moderate**. Climate events and trends are expected to have a considerable influence on the success of the project in achieving its development objective; however, adaptation measures have been mainstreamed into the project design to lower the risk.

Recommended features of project design and implementation

21. The project will support mitigation measures by promoting sound environmental practices to farmers integrated into their business planning, such as sustainable grazing management, waste re-use and recycling. Consideration of climate adaptation and resilience will be mainstreamed in all aspects of the project. Good agricultural practices are instrumental in both adaptation and mitigation strategies. By improving plant nutrient management, smallholder farmers will increase their yields and produce higher volume of crop residues that will in return contribute to soil carbon sequestration and enhance soil fertility. Table 1 below provides an outline of good agricultural practices that the project and financial intermediaries can promote.

Table 20: Outline of Good Agricultural Practices along food commodities value chain

Types of GAP	example of considerations before adopting specific practice
Site selection	Cultivation methods, erosion control measures, irrigation, flood control, pest and diseases and land history, suitability of previous crop rotation, etc.
Land preparation	Methods that ensure soil conservation, water resource management and environmental conservation such as: terracing, tillage, hoeing mulching, strengthen soil structure and avoid leaving the surface exposed to wind and rain at times of highest risk, proper spacing, etc.
Maintaining soil fertility	Maintaining soil organic matter through mulching and allowing plant stalks to rot in the field, crop rotation, aerate the soil, provide drainage if necessary, Application of compost, manure and inorganic fertilizer in correct amounts and timing and by methods that are appropriate to agronomic and environmental requirements , fertilizer storage, etc.(see annex 1 for further details).
Water resources management	Maximize water infiltration and minimize unproductive efflux of surface water from watersheds. Manage ground and soil water by proper use, or avoidance of drainage where required. Adopt techniques to monitor crop and soil water status, accurately schedule. When irrigating, prevent soil salinization by adopting water-saving measures. Establish permanent cover, or maintain or restore wetlands as needed. Manage water tables to prevent excessive extraction or accumulation, and provide adequate, safe and clean watering points for livestock.
Integrated pest management	Learning crop protection basics, define appropriate stages of interventions, biological, physical and chemical methods coupled with farming practices that prevent problems (e.g. association of crops, plot selection and layout, destruction of crop residue, Tilling, reasoned fertilization, resistance varieties, etc.
Post-harvest handling	Use of solar dryers, evaporative coolers, plastics storage bags, metal silos and plastic transportation crates, all demonstrating good results in terms of decrease in spoilage, pest infiltration and losses.

Institutional analysis

Institutional framework

22. National Development Plan (1999) identifies environmental protection as a cornerstone in the national development process. The plan proposes various climate related actions to address environmental priorities. Actions to raise awareness regarding environmental and climate change issues, notably in the education system, are also included, as are actions related to the development of climate smart and cost-effective agriculture technologies.

23. Swaziland Environment Action Plan (1997) recognize as central recognition of the cross-sectoral nature of our environmental problems, the identification of the relationships which exist between the environment and key sectors within the overall macro-economic framework, and the need for active and lasting community involvement and participation in environmental protection and natural resource management.

24. National Climate Change Policy (2016) which supports the priorities outlined in the National Development Plan. The aim of the policy is to provide the enabling framework that will guide Swaziland in addressing the challenges posed by climate change, per relevant sectors in the country.

25. National Disaster Management Act (2006) legislates for an integrated and coordinated disaster management approach and provides for the institutional mechanism, including structures, functions, authorities and responsibilities of major actors.

26. Swaziland Sustainable Energy for all country Action plan (2014) set priority intervention areas to accelerate the attainment of the goal of Sustainable Energy for ALL by 2030, where the removal of critical bottlenecks are likely to yield the highest and most widespread impacts on people's living conditions and economic livelihoods, particularly in under-served rural and peri-urban communities and households.

27. Swaziland Third National Communication to the United Nations Framework Convention on Climate Change (2016) recognizes the relationship between climate change and food insecurity and hence climate change should be incorporated into socio-economic development planning. In order to meet the challenges and uncertainties of climate change, agricultural development processes must be rendered more climate-resilient and lower in carbon emissions.

28. Intended Nationally Determined Contributions (2015). In terms of adaptation contribution, the document identifies the following actions to achieve these contributions: conservation tillage; crop diversification; greenhouse farming; hydroponics; livestock selective breeding; micro irrigation; organic farming; and solar dryers. With regard to mitigation measures, the NDCs advocate for comprehensive land use planning that intertwines ecosystems services and renewable energy to estimate and reduce anthropogenic greenhouse gas emissions.

Capacity building

29. Capacity building in the climate sector is a key element of FINCLUDE. The project will work with a variety of stakeholders, both public as well as private, to increase capacity in the areas of climate-informed decision making, climate resilience investments, and climate financing.

Monitoring and Evaluation

30. Environment and climate considerations need to be mainstreamed into the project's M&E / MIS system. In line with the project's overall approach, the M&E system should be geared towards getting the most valuable data and putting emphasis on presenting back the information derived from the data collected, to close the feedback loop. Key performance indicators for the climate aspects of the project have been integrated into the project's logical framework.

Record of consultations with beneficiaries, civil society, general public, etc.

31. A full list of consultations is included in the Project Life File.

Appendix 13: Contents of the Project Life File

Country strategy

Kingdom of Swaziland Country Strategy Note (June 2017 – June 2019)

Project design

FINCLUDE (ex-FIVAC) Concept note
Aide Memoires of design missions
Terms of Reference for design missions
COSTAB file
Economic and Financial Analysis Excel files

Review documents

OSC minutes
CPMT minutes
QE panel report
QA minutes

External documents consulted

A Dropbox was created to facilitate harvesting of data as well as exchange among the missions members and CPMT. A large number of files were gathered about country context, inclusion and social issues, commodities and value chain and are available at:

https://www.dropbox.com/sh/r4brvllo7ichzqc/AABcnKqmglTfHaR72OTFLsu_a?dl=0

Additionally, the key reference documents are available in the PLF.