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Rural Finance Policy Development in
Eastern and Southern African Countries:
Contribution of IFAD-Supported Rural Finance Programmes

Annex 5. Country report for the Kingdom of Swaziland

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Contents

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Chapter 1

Introduction

1.1 Background to the study

In the backdrop of IFAD's effort to improve livelihoods by enhancing access to financial services among rural communities, the Rural Finance Knowledge Management Partnership (KMP) carried out a study to find out how IFAD-supported rural finance programmes contribute to policy development in the Eastern and Southern African region. The focus of the study was on countries with active rural finance programmes and components—Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia—where IFAD has been increasingly engaged in policy dialogue with a view to influencing policy. The IFAD programme also seeks to influence policy to minimize adverse effects of global trends and maximize incentives and opportunities for the rural poor. Apart from challenges in the area of rural infrastructure, capacity of financial service providers and clients, other factors such as legislative, regulatory, supervisory and overall policy constraints often stand in the way of delivery of need-based financial services in the rural area. IFAD has been supporting capacity building of policy-making bodies, development of appropriate decentralized policy and practices, evolving market-oriented research/studies and dissemination of learning.

Considering the critical importance of creating finance policies that are appropriate to rural settings, KMP proposed to undertake a region-wide *Study of Rural Finance Policy Development in the Eastern and Southern African (ESA) Countries—Contribution of IFAD-Supported Rural Finance Programmes,* and to determine the way forward to addressing the key constraint—insufficient skills in information technology and insufficient exposure to skills required for good information management—mentioned above. The study covered all the eight ESA countries where IFAD had been active. For the study, KMP identified a consultant, Biswa Bandhu Mohanty, on account of his expertise and wide experience in rural finance.

1.2 Purpose of the study

The study was undertaken with the following overall objective: To produce a KM document for use by the stakeholders of RF programmes being implemented by IFAD in the 8 selected ESA countries. The specific objectives of the study were to:

- Identify major policy issues in ESA countries which IFAD projects have enabled to sort out/address during the course of implementation in the countries;
- Bring out successful strategies adopted/institutional mechanism used to

influence policy issues, leading to fulfilment of programme objectives;

- List out country-specific policy issues in ESA, which have regional and global implications/impact;
- Suggest sustainable institutional mechanisms that have to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion and inclusive growth; and
- Suggest ways and means for enhancing knowledge management, sharing of experience/best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.
- Target organizations for the study

In the 8 selected countries (Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia) the study targeted public and private institutions that have national responsibility for, as well as commercial interests in, rural development. They included Central Banks; Insurance Regulatory Authorities; Co-operative Regulatory Authorities; Ministries of the National Governments including Ministry of Finance (MOF), Ministry of Agriculture/Cooperatives (MOA); MF Associations, Co-operative Unions/Alliances; Apex Development Banks; Policy Research Agencies; and leading Civic Society Organizations (NGOs, CBO, etc).

1.3 Data collection methods and tools

Three main methods or tools were used in gathering data:

(i) the questionnaire shown in Appendix 5.1 was designed to solicit views/inputs from the concerned IFAD officers at the project level in all eight countries targeted for the study.

(ii) Interviews and consultations were used through face-to-face meetings and by e-communication. The consultant visited the capital cities of five of the target countries from 23 June to 9 July 2014; they, included Lusaka (Zambia), Dar es Salaam (Tanzania), Kampala (Uganda), Addis Ababa (Ethiopia) and Nairobi (Kenya). The visits facilitated interviews and discussions with officials of the institutions targeted in those countries.

(iii) Intensive literature survey was used to collect information at country/institutional as well as regional and global levels. Since Swaziland was not visited the study was based mainly on study of national strategy documents. The list of documents consulted is given in Appendix 5.2.

1.4 About this report

This report focuses on the study findings with respect to RF development efforts, the contributions of IFAD RF programmes and the emerging policy issues and challenges and recommendations for addressing them for furtherance of rural finance policy in Swaziland. Although presented as a standalone report, it is intended that this report be read alongside the main study report which addresses

RF issues that prevail regionally and globally.

It is also envisioned that the reader will seek to benefit from the following Case Study Reports attached to the main report as appendices: MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (AEMFI) (Appendix 8), microfinance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). For the sake of comparison and regional learning, the reader should also seek to benefit from *Country Reports* for other ESA countries which constitute an important output of this study. The full list Country Reports includes Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).

Chapter 2

Study findings

2.1 Rural finance policy initiatives and positive developments

2.1.1 Socio-economic environment

Human development scenario

The Kingdom of Swaziland is a lower middle-income country. About 80% of Swaziland's poor people live in rural areas where per capita income is four times lower than in urban areas. About 66% of the population is unable to meet basic food needs, while 43% live in chronic poverty. Swaziland's growth challenges can be traced back to issues round land and land tenure system. Most of the rural population, including poorest communities, lives on the Swazi Nation Land which is held in trust for the nation by the King and administered by the chiefs. Swaziland constitutes 75% of country's total land area. Most of Swaziland is under subsistence agriculture, which is generally done under rain-fed conditions. Also, Swaziland is at the epicentre of HIV and AIDS. A staggering one-third of Swazi children are orphans and vulnerable children. The country suffers from the world's highest death rate from HIV and AIDS and has one of the lowest life expectancy levels in the world.

Development plans

Since 1971, Swaziland had been developing Swazi National Land through its rural development area programmes as the means of improving the livelihoods of the poor. By the year 2000, the government had formulated a Poverty Reduction Strategy and Action Plan [PRASAP] to address the declining economic growth and mounting poverty. The government pledged to reduce poverty level by more than half by 2015 and ultimately to eliminate it by 2022. It Government of Swaziland had drawn the Vision Plan 2022 with a new constitution in place, while new policies and strategies were being developed in consultation with local traditional communities, NGOs and the private sector.

Financial sector scenario

The Financial Sector comprises of the Central Bank of Swaziland [CBS], Financial Sector Regulatory Authority [FSRA], three commercial banks [owned by parent companies in South Africa], Swaziland Savings and Development Bank [wholly owned by the Government], Building Society, two insurance companies, registered co-operatives and other financial institutions [Inhalanycle Development Fund, Swaziland Development Finance Corporation]. The Central Bank of Swaziland regulates and supervises deposit-taking banks under the Finance Institution Act, 2005 and is the leader of financial sector reforms.

2.1.2 Legislative and policy initiatives

LEGAL REGULATORY AND SUPERVISORY FRAMEWORK DEVELOPMENT

A new regulatory authority – Financial Services Regulatory Authority [FSRA] had been set up under the FSRA Act 2010. The objective of this Act is to establish an integrated regulating regime for Swaziland for non-bank financial services industry including insurance, retirement funds, savings and credit co-operatives, building societies, capital markets and similar institutions, with sufficient powers to regulate and supervise the sector effectively, including extensive power to issue bye-laws, rules and codes, etc. All financial institutions other than CBs would be registered by FSRA and have to comply with its regulations, reporting framework and supervisory guidelines. FSRA has the mandate to develop/upgrade MIS, accounting system, audit path, financial statements for the regulated entities to enable them to adhere to the financial discipline.

DEVELOPMENT OF REGULATIONS FOR SACCOS

The SACCOs Regulation 2013 was issued by the MOF under the Section 89 of the FSRA Act 2010. The Regulations are very comprehensive and also contain the schedule of returns/reporting requirements. The regulations include licensing procedures, governance, prudential norms, transparency through full and fair disclosures, code of conduct, enforcement of action, penalties, inspection, compliance, etc. The appointment of a Statutory Manager and Principal Officer in SACCOs and setting up Deposit Guarantee Fund for SACCOs are unique in the regulations. The Ministry of Agriculture [MOA] is the nodal government authority for co-operative sector development policy.

SME SECTOR POLICY DEVELOPMENT

The government set up FINCORP to address financing needs of SME sector besides providing training and business advisory services for them. The government also operates the Small Scale Enterprise Loan Guarantee Fund [SSFLGF] scheme and had also instituted Youth Fund to support young entrepreneurs. The Fund is restricted to CBs. The non-inclusion of the MFIs and other NBFIs for financing SMEs and absence of portfolio guarantee to reduce transaction cost of SMEs are some of the limitations of the policy framework of the SSELGF. The microfinance organizations extend financial assistance for SMEs. The Ministry of Enterprises is the nodal department for SME development for the purpose of policy and facilitation.

LEGISLATIVE AND POLICY FRAMEWORKS FOR INSURANCE AND PENSION SERVICES

The Insurance Act 2005 and Retirement Fund Act 2005 govern the legal framework for insurance and retirement fund respectively and the Registrar of Insurance and Retirement Fund [RIRF], the nodal authority for administration of the Acts. Proper policy and regulations for micro insurance and pension for rural poor are yet to be developed.

FinMark Trust and Cenfri had conducted a diagnostic study on demand, supply and regulatory arrangements on micro insurance for potential development of micro insurance sector with funding from Fin Mark Trust in 2011-12. Based on the findings of the study, and also support provided by the Fin Mark Trust, the process of revisiting the legal, regulatory and supervisory arrangements had been initiated so as to evolve the revised Micro Insurance Bill/new regulations on micro insurance.

2.1.3 Financial inclusion initiatives

Making access to finance service possible

The Making Access to Finance Service Possible (MAP) programme was being implemented in select countries including Swaziland. The MAP is multi- country initiative to support financial inclusion through a process of evidence- based country analysis of demand, supply and regulatory environment, with a view to identifying key constraints and suggesting ways and means to increase financial inclusion across savings, credit, pension payment and insurance. The programme envisages to have a Financial Insurance Task Team comprising microfinance Units [MFU], Central Bank, FSRA, MOF and with MFU providing the secretariat. The MAP seeks to align all stakeholders encompassing government, private sector and donor community, for channelling out / operationalizing a Financial Inclusion road map and action plan. The National Financial Development Strategy did not spell out a financial inclusion plan so the country conspicuously lacked financial inclusion. Parliamentary approval for a consumer credit policy was being awaited while the Fin Scope Survey undertaken in 2011 was to be updated in 2014. These steps including IFAD initiatives under its Rural Finance Entrepreneurship Development Programme were likely to facilitate the development of a proper financial inclusion policy and strategy for the country.

Initiatives of development partners

IFAD's projected contributions are discussed separately hereunder. World Bank had studied the poverty scenario and growth prospects and brought out development challenges in the country. The IMF had studied the financial reform prospects and financial inclusion frontiers, brought out the supply and demand side constraints and emphasized the role of public policy at macro and micro level. With the support of donor agencies and other development organizations the government was taking various initiatives.

2.2 Role and contributions of IFAD rural finance programmes

2.2.1 IFAD's RFED programme spearheads development in RF

IFAD commenced its operations in Swaziland in 1985 and has provided a total of US$34.3 million in loans. While two projects had been completed, two other were being implemented in the country. The Rural Finance and Entrepreneurship Development Programme (RFED) is a six-year programme with country-wise coverage to improve the effectiveness of rural finance institutions, intensify entrepreneurial activity for stimulating rural economy and provide rural poor more efficient access to financial services. It is expected to bring improvements in business and financial sectors through reforms of policies, regulations, legislations and processes. It is aimed at developing technical and business skills and insight of the public and private sector and civil society. It carries 3 components viz. (i) Building Entrepreneurial Capacity in rural economy, (ii) Deepening RF sector, and (iii) Programme management, implementation and co-ordination including addressing policy reforms, regulatory and legislative issues. The programme has contributed significantly for policy reforms, including awareness- building, institutional capacity building and advocacy, leading to refinement/development of policy and creating enabling environment of rural finance/rural entrepreneurship. IFAD's contributions are outlined hereunder.

2.2.2 Setting of microfinance unit [MFU] in MOF

The microfinance unit [MFU] is a semi-autonomous body under the auspices of the Ministry of Finance [MOF] to facilitate institutional development of the microfinance sector. The unit was established under IFAD-supported RFED in 2010. The MFU has emerged as the central agency for policy exploration, facilitation and development in rural finance, cutting across all stakeholders including donor agencies. It has also been facilitating implementation of the activities envisaged under RFED. The MFU-University of Swaziland (UNISWA) partnership is envisaged to facilitate University and MFU working together in key intervention areas for innovation of new entrepreneurship culture. The areas of focus include enabling environment for MSMEs, deepening rural financial sector through enhanced access to Finance, building rural entrepreneurial capacity, institutional development, etc.

2.2.3 Facilitating policy development for MF sector

The RFED has supported, through MFU, the development of MF policy for improving financial sustainability and outreach. The landscape mapping study, stakeholders' consultations, and policy advocacy, etc., undertaken during 2014 have been parts of the whole effort. The policy framework would clearly articulate and define institutions that constitute the sector, establish a common code of practice, a re-capitalization programme and effective co-ordination mechanism to support the visibility and sustainability of the sector.

2.2.4 Refining policies for MSMEs sector

RFED has supported the refinement of MSME policies for business start-up and growth. IFAD has advocated measures for broad-basing and improving the SSLGF mechanism through various forums / review reports, etc. SSLGF is now hosted and managed at the Central Bank level. IFAD has advocated for enlarging accessibility of SSLGF for all financial institutions, introducing portfolio guarantee mechanisms for small-scale loans instead of individual guarantee to reduce the cost of processing, time and delay, simplifying the procedure for payment of claims and reducing the risk coverage rate, increasing maximum loan size and enriching governance.

2.2.5 Supporting capacity building for development of regulations

The RFED has promoted capacity-building measures for drafting the legislation, as well as supervisory guidelines and regulations for the policy and supervisory authorities, particularly MOF, Central Bank and FSRA. The programme supported the development of FSRA Act. Since FSRA was set up, it was envisaged to provide necessary policy inputs, training and exposure for the HR to enable them to frame various regulations, supervisory guidelines and enforce them. The programme envisages supporting FSRA in accounting and audit system development, MIS, offsite and onsite inspection, risk management, etc.

2.2.5 Supporting financial inclusion campaigns

Since 2012, MTN [mobile money, self-service and manual kiosks] has operated its mobile money [enwalled] for its customers with the assistance of the MFU. There has been substantial growth of registration of MTN customers under the mobile money services. The programme has been supporting the development of a proper policy framework and strategy for linking mobile money with commercial bank accounts, use of e-wallets for transfer/payments, putting in place M&E system, piloting agents and POS mechanism for mobile money and other innovations for faster financial inclusions.

2.2.6 Supporting participatory approach to policy making

Under REFD, the Programme Steering Committee, National Coordination Committee, etc., ensure proper consultation in decisions-making. In tune with the objectives of IFAD programmes, notable contributions have been registered in respect of the following:

- Rural poor having access to efficient and effective financial services on a sustainable basis;
- Development of an enabling and enhanced environment for business development in rural areas, establishment/development of micro and small scale enterprises [on and off farm] as well as business services in rural areas; all targeting the most vulnerable and marginal groups, active poor households that can seize income-generating opportunities and the households aspiring to develop small scale enterprises.

2.2.7 Co-operative regulation and institution building

The FSRA, Swaziland Association of Savings and Credit Association [SASCCCO] have been supported for developing regulation for SACCOs, drafting supervisory guidelines and upgrading data generation/transmission.

Chapter 3

Emerging issues / challenges and recommendations

3.1 Understanding/taking strategic measures to develop RF

The outlines of the suggested policy and strategic measures required for development of RF in the country are stated below:

- The Credit Bureau System ensuring coverage of all financial institutions, and both negative and positive information, should be put in place and the necessary legislation and regulating framework should be evolved. This will address/minimize the level of over- indebtedness in the financial sector.
- A sustainable institutional mechanism for establishing co-ordination and collaboration between MOF, CBs and FSRA should be put in place.
- Capacity building of FSRA for regulating and supervising a divergent set of institutions should get primary focus.
- Harmonization of all new laws and old laws is essential in view of the ongoing legal and regulatory reforms. The Co-operative Act, FI Act, insurance Act should be revisited in the light of the new Acts/Bills like Consumer Act, FSRA Act., etc.;
- Appropriate regulations in the light of the new legislations should be firmed up expeditiously. The offsite surveillance should be strengthened;
- Deposit Guarantee Fund and Institutional Protection Fund should be set up for the safety of depositors;
- Tax incentives should be provided by the government to promote rural and agricultural lending. Suitable tax incentives for the lending institutions and for investors can be evolved/introduced, considering the intermediation cost and difficulties in infrastructure in rural areas;
- Reporting and disclosure standards for the banks and financial institutions should be broad-based so as to include their cost of borrowing, operation cost and risk cost, etc, to rationalize the interest rate at the ultimate level. The Tripartite collaboration between MFU, FSRA and registered institutions for data-sharing should be enforced;
- SME policy framework being developed should be finalized for furtherance of SME sector;
- A diagnostic study to assess the system, processes including accounting, audits, internal control, MIS, risk management, etc., may be undertaken for the SACCO sector to systematically approach operationalization of the regulation and supervisory framework being development by FSRA;
- Thrifts and savings should be encouraged in rural areas through a programme to promote informal and formal sector linkage. Low costs,

flexible and mobile-based saving products can be popularized. Savings as collateral substitutes should be strengthened; and

- Pension and micro insurance sector reforms should be carried forward.

Appendices

Appendix 5.1. Study questionnaire

1) Who are you? (Country Project Officer, Country Programme Manager, senior Policy Adviser, PTA, Policy researcher, etc).

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2) In which country are you working?

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3) Using the format given below, please name IFAD-supported projects in your country, segregating those in operation and the completed ones.

Project no.	Project title	Project period	Project's broad components

4) According to you which are the most successful IFAD's intervention in your country? Please specify reasons.

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5) Were there any major policy issue(s) pertaining to the project's implementation in your country/ESA?

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6) If yes, what did the Government, regulatory agencies and other policy-making authorities do to resolve and subsequently improve the project's implementation. (Please mention the project, policy constraints and the improvement made as indicated in the table)

Project name	Policy constraints	Changes/improvements made

7) What methodology/approach was adopted to change/develop the *relevant* policy?

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8) Have there been any separate documentation done on new policy introduced, policy issues resolved and/or policy refinement/development contributed under the project implemented? If so, specify.

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9) Do you have any separate institutional mechanism in the project framework for review, debate, resolution and dissemination of policy issues? If so, specify.

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10) Was regulation and supervision of financial services institutions embedded within the Rural Finance Project as core component? If so, outline major interventions effected for improvement in regulatory and supervisory policy?

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11) How has regulation and supervision of financial services embedment in the Rural Finance Project been helpful in policy reforms in financial sector?

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12) What are the difficulties faced by IFAD in pursuing with policy-making authorities/promoting innovative policy framework?

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13) What could be the best/most feasible ways of bringing about necessary policy changes/reforms for a donor agency?

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14) Are there any seminar/ workshop, training, sensitization, exposure programmes which are organized for stakeholders' capacity to look into policy issues/ explorations as part of project implementation? If so, cite a few models.

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15) (a)What are the means adopted for dissemination of information/experience in policy issues at various levels including grass root level?

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(b)In your project, has there been a participatory approach as a method in making policy decisions? If so, cite instance(s)

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16) Is there any exchange forum(s) put in-place in your country/ESA for projects to exchange knowledge/experience? If so, how effective is the forum(s)?

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17) Is there any institution(s) in your country which can be banked upon for knowledge management in policy issues pertaining to project themes of IFAD? If so, give details.

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18) (a) Identify five major IFAD's contributions in policy areas/issues in your country?

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(b)Give brief outlines of the above identified policy areas/issues.

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(c) Do you think any of the above is/are best practices/innovative which can be replicated in other countries?

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19) Name five major unresolved policy issues (theme-wise) hindering project implementation in your country?

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20) Would you advocate for policy development in core areas of IFAD support framework in your country/ESA? Give reasons for your answer

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21) Do you have any other input having relevance to IFAD's policy contribution in your country/ESA?

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Appendix 5.2. References

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