Independent Office of Evaluation

IFAD
Investing in rural people

Inclusive financial services for the rural poor

EVALUATION SYNTHESIS

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Evaluation synthesis

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Front cover: A beneficiary of the IFAD-supported Rural Finance Institutions Building Programme paying her savings into an account administered by a non-government organization. NGO staff visit remote villages to collect savings, Benue State, Nigeria. ©IFAD/Johanna Pennarz

Back cover: A representative of the Agricultural Bank meets with members of a women's group from the village of Neiba in the Dominican Republic, supported by the South Western Region Small Farmers Project. ©IFAD/Horst Wagner (left); Members of the Sukalyani Shakti Dala self-help group in Tumulo village, Gajapati District, India supported by the Orissa Tribal Empowerment and Livelihood Programme. ©IFAD/Sangeeth Rajeesh (right)

Foreword

The Independent Office of Evaluation of IFAD (IOE) has prepared an evaluation synthesis report on IFAD's support to inclusive financial services for the rural poor. It reviews IOE evaluations since 2009, and also draws on lessons from other international financial institutions.

Following the corporate-level evaluation of IFAD’s Rural Finance Policy in 2007, IFAD introduced a revised policy (2009), which recommended a financial systems development approach, targeting all three levels of the financial system: the micro level, focusing on individuals and the sustainability of financial service providers; the meso level, focusing on building effective financial markets, and second-tier and apex institutions; and the macro level, addressing governments, policy and sector strategy formulation, and regulation and supervision of micro-level financial service providers and meso-level institutions.

However, the synthesis found that the mix of financial instruments in the portfolio had not changed fundamentally since 2009 and that projects still offered similar financial services, mainly savings and loans. New types of services were rarely used or were found less feasible during implementation. The main reason is that the transition to new types of financial services requires significant investments in technical assistance, market studies and capacity, for which governments had been reluctant to use loan funds. The synthesis points to major capacity gaps at all levels: at the level of implementing partners, who often find it challenging to manage complex rural finance projects; at the level of financial service providers, who do not have the presence and capacity to serve a diverse clientele with a wider range of products and services; and last but not least at the level of IFAD, which has limited in-house capacities to manage partnerships and provide technical support to projects.

The synthesis also points to the limited impact of many rural finance projects. The synthesis noted the low outreach to very poor people on the one hand, but also to micro small and medium enterprises on the other hand. As the Fund aims to reach an increasingly diverse range of target groups, differentiated approaches tailored to the needs and absorptive capacities of these specific groups will be essential. For example, for outreach to the very poor, the financial graduation approach which IFAD has introduced in partnership with the Bangladesh Rural Advancement Committee in several countries is promising. Overall, the synthesis concludes that the projects which achieved better impact were those which worked through meso-level institutions and which had sizeable funding, were standalone rural finance projects or were projects with a dedicated rural finance component.

The synthesis recommends developing a corporate strategy to address the critical capacity issues mentioned above. It also recommends a stocktake of current practices from the field to ensure that lessons learned are taken on board.

The important role of rural finance in the inclusive rural transformation agenda is recognized in IFAD's current Strategic Framework 2016–2025. The global development agenda places new demands on the financial sector to diversify services and in particular to increase its focus on hard-to-reach clients.

I hope that this report will be useful to guide IFAD's future positioning and support in this important area.

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The final draft has benefited from an IOE internal peer review and comments provided by IFAD Management.

Contents

Annexes

Currency equivalent, weights and measures

Currency equivalent

Currency unit = Kenyan Shilling (Ksh)
1 US$= 101.820 Ksh*
Currency unit = Egyptian Pound (EGP)
1 US$= 17.922 EGP*
*according to https://icsc.un.org as of January 2019

Weights and measures

Metric system

Abbreviations and acronyms

AfDB	African Development Bank
APRACA	Asia-Pacific Rural and Agricultural Credit Association
BMZ	German Federal Ministry for Economic Cooperation and Development (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung*)
CABFIN	Improving Capacity Building in Rural Finance
CACB	Cooperative and Agriculture Credit Bank
CBFO	community-based financial organization
CGAP	Consultative Group to Assist the Poor
CLE	corporate-level evaluation
CPE	country programme evaluation
CPM	country programme manager
CSPE	country strategy and programme evaluation
ESR	evaluation synthesis report
FAME	Financial Assets, Markets and Enterprises Unit of IFAD
FAO	Food and Agriculture Organization of the United Nations
FSP	financial service provider
GIZ	German Development Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit*)
GPFI	Global Partnership for Financial Inclusion
IE	impact evaluation
IEG	Independent Evaluation Group of the World Bank
IFI	international financial institution
IFS	inclusive financial services
IOE	Independent Office of Evaluation of IFAD
LGF	loan guarantee fund
LOC	line of credit
MBFI	member-based financial institution
MFI	microfinance institution
MSME	micro, small and medium enterprise
NFIS	national financial inclusion strategy
PAMIGA	Participatory Microfinance Group for Africa
PARM	Platform for Agricultural Risk Management
PMU	project management unit
PPA	project performance assessment
PPE	project performance evaluation
PRISMA	President's Report on the Implementation Status of Evaluation Recommendations and Management Actions
PTA	Policy and Technical Advisory Division of IFAD
QA	quality assurance

QE	quality enhancement
QUASAR	Quality Assurance Archiving System
RCC	rural credit cooperative
RFILC	Rural Finance and Investment Learning Centre
RUSACCO	rural savings and credit cooperative
SACCO	savings and credit cooperative
SAFIN	The Smallholder and Agri-SME Finance and Investment Network
SDG	Sustainable Development Goal
SIDBI	Small Industries Development Bank of India
SME	small and medium enterprise
VC	value chain
VCF	value chain financing
VSLA	village savings and loan association

Executive summary

A. Background

1. Rural finance constitutes a significant part of IFAD's investment portfolio. Since 1981, IFAD has financed a total of 1,052 investment projects, out of which 506 include rural finance activities (48.1 per cent), worth US$3.4 billion (out of a total of US$19.2 billion), representing 17.7 per cent of IFAD's project investments. In addition, IFAD provided grants for rural financial service activities worth US$42.3 million (out of a total of US$484.3 million), representing 9 per cent of all grant money.

2. IFAD has adopted a revised Rural Finance Policy (2009) and actively promoted a greater diversity of rural finance approaches and instruments in its operations. IFAD's current Strategic Framework (2016–2025) sees rural finance as an integral part of the inclusive rural transformation agenda. The changing environment and global development agenda place new demands on the financial sector to diversify services, with an explicit focus on clients, and to increase outreach to those who are hard to reach.

3. **Objectives and scope of this synthesis.** With the Rural Finance Policy having been in place for 10 years, this synthesis provides an opportunity to take stock and learn from the experience. The objectives of this evaluation synthesis were thus to: (i) review the relevance of IFAD's policies, guidance and knowledge on inclusive financial services (IFS) and the extent to which this has contributed to innovative IFS practices in the projects and portfolios evaluated by the Independent Office of Evaluation of IFAD (IOE); (ii) review the relevance, effectiveness, sustainability and impact of the IFS operations evaluated by IOE; and (iii) identify good practices and lessons on IFS that should inform the development of IFAD's IFS portfolio under Agenda 2030.

4. The time frame covered by this evaluation synthesis report goes from 2008 until 2017, starting the year after publication of the corporate level evaluation (CLE) of IFAD's Rural Finance Policy. The synthesis report covers those country portfolios, loan projects and grants evaluated by IOE since 2008 that had a focus on rural finance or IFS, as defined by the relative share of funding for these topics at design. The synthesis also covers – although in broad terms only – the development of policies, guidance and innovative approaches in IFAD since the introduction of the revised Rural Finance Policy in 2009.

B. Findings

5. **The revised Rural Finance Policy (2009)** introduced an important strategic change, namely the move from considering credit as part of input supply, towards a comprehensive approach focused at the three levels of the financial system (micro, meso and macro) in order to achieve sustainable delivery of financial services for the rural poor. The policy introduced a financial systems development approach, which recommended targeting all three levels of the financial system: the micro level (focusing on individuals and the sustainability of financial service providers - FSPs); the meso level (focusing on the building of effective financial markets, second-tier institutions and apexes); and the macro level (dealing with governments, policy and the formulation of sector strategy, as well as regulation and supervision of micro-level FSPs and meso-level institutions). The policy highlights the importance of: knowledge-sharing; learning systematically and collectively from projects; good practices; and partners.

6. **Learning partnerships** with global or regional key actors have helped to test and develop innovative approaches and to digest broader learning. Many of these partnerships have a long record of accomplishment, and all have generated crucial knowledge. Partnerships and their resources have been instrumental in introducing

global lessons and thereby strengthening conceptual and technical knowledge in IFAD. (Such partnerships include the Rural Finance and Investment Learning Centre [RFILC], supported by IFAD, the Food and Agriculture Organization of the United Nations, the German Corporation for International Cooperation and the German Federal Ministry for Economic Cooperation and Development, UNCDF, the World Food Programme and the World Bank.) However, what did not come about was a comprehensive analysis of lessons and practices within IFAD.

7. **Grants**. Knowledge generation almost exclusively depended on grants. Global grants were used effectively to foster knowledge with think tanks or agencies leading within a thematic area. The choice of partners was highly valid, with the choice of internationally renowned agencies that are at the forefront of the thematic debate in their specific fields. Regional grants promoted cross-country learning and capacity-building, based on learning synthesized from a region. They also facilitated innovative products across a number of countries with similar challenges and opportunities. Country-specific knowledge grants addressed capacity and policy gaps, and supported innovations that were later scaled up through IFAD's country programmes.

8. **IFAD in-house capacity**. Within IFAD, the Rural Finance Team (within the former Policy and Technical Advisory Division) has played a major role in facilitating implementation of the Rural Finance Policy over the past decade. It has been managing global grants and contributing to regional grants, engaging in international forums, and generally advancing learning and knowledge generation and dissemination. Overall, this highly qualified and well-networked team has been a decisive factor in increasing IFAD's global visibility and reputation in the field of IFS. It has been acting as a catalyst for knowledge and learning, moving the organization forward and linking it to global and regional peers.

9. During the first wave of IFAD's decentralization, in 2018 the core Rural Finance Team at headquarters level was dismantled. While it is reasonable to place technical support capacity in regional hubs, closer to IFAD's operations, this move has left a vacuum in IFAD Rome, given the central role that the Rural Finance Team had been playing in the past in ensuring the consistency of IFAD's approach to IFS, networking with global IFS players, introducing state-of-the art practices and leveraging knowledge and support for the various regions.

10. At operational level, the country programme managers (CPMs) had a pivotal role to play when it came to translating RF policy principles into practices on the ground. With IFS constituting such an important part of the IFAD portfolio, the CPMs were expected to understand the basic IFS principles as well as the range of innovative instruments and services promoted by IFAD. In practice, the CPMs mostly relied on external consultants for project design and implementation support.

11. Limited availability of in-house IFS capacity, and high dependence on external consultants, partly explain gaps in application of the Rural Finance Policy during design and implementation. Another important factor is the limited capacity of IFAD to follow up on the more complex and innovative IFS approaches that are promoted by the Rural Finance Policy. IFAD's performance as a partner in IFS differs significantly between regions; generally it is better where IFAD has a larger portfolio and a fully dedicated CPM to follow up.

12. A number of databases are being put into place, which may not only help to ensure a consistent approach to IFS, but can also be harnessed for learning purposes. They would however still require an appropriate level of IFS capacity to be available in-house, to ensure that high standards of quality are ensured and important lessons are tracked across regions, as stipulated by the Rural Finance Policy. Review of the existing databases (the Quality Assurance Archiving System - QUASAR and the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions – PRISMA - database) has shown that

comments are often not substantial and are insufficiently aligned with the principles of the Rural Finance Policy. In addition, IFAD still does not conduct a regular review of its IFS portfolio, as had been suggested by the Smart Aid report (2013).

13. **Rural Finance Policy principles**. The six principles of the 2009 Rural Finance Policy are internationally recognized as good practice and are generally valid for financial sector interventions: (1) offering a variety of financial services; (2) using a wide range of FSPs; (3) demand-driven and innovative approaches; (4) market-based approaches, avoiding distortions; (5) long-term strategies, sustainability and poverty outreach; and (6) policy dialogue and an enabling environment for pro-poor rural finance. Although these principles were widely applied even before the introduction of the revised policy, some of them were found to be ambitious and challenging in the context of IFAD operations, in particular those in regard to the variety of financial services, the use of demand-driven and innovative approaches, and ways of balancing sustainability and poverty outreach.

14. **Mix of financial instruments.** The mix of financial instruments in the portfolio did not change fundamentally over time. Loan guarantee funds, lines of credit and matching grants are overly represented in the mix, but have delivered mixed results in the sample reviewed. The choice of these instruments was not necessarily based on a sound analysis of the market demand, the potential to integrate with non-financial support and the local environment. Other factors appear to be driving these decisions, such as: demand from government; assumptions on what the beneficiaries may lack; pressure to reach out to a large number of beneficiaries within a short time; and limited knowledge of feasible alternatives.

15. **Financial products and services**. Despite the clear indication in the Rural Finance Policy to diversify products and services, projects were generally found to be leaning towards traditional financial services – mainly savings and borrowing at the micro level. New types of services that were promoted by IFAD through the revised Rural Finance Policy – such as leasing, insurance, warehouse receipts and value chain financing – were used very little. When they were included in the design, they were often found less feasible during implementation. The main reason was that the transition to new types of financial services requires significant investments in technical assistance, market studies and capacity, for which governments had been reluctant to use loan funds. In addition, it was often difficult to find service providers for special products such as leasing and insurance that were able and willing to serve IFAD's target group.

16. **Financial service providers.** The choice of FSPs for IFAD projects was determined by their capacity and their presence in rural areas. State banks were often default partners in the older projects. But they did not perform well, due to institutional inefficiencies and the at times conflicting procedures and interests (for example, in Egypt and Yemen). On the other hand, the participation of commercial banks – which was assumed at project design – often did not happen as planned (for example, in Ethiopia, Belize, Ghana and Georgia). As a result, community-based financial organizations (CBFOs) working outside of the formal financial sector were often called in to fill gaps left by formal FSPs. Fifty-two per cent of the projects reviewed have used CBFOs. They were usually strong in reaching out to the poor, and in many cases to women, but often encountered problems in terms of growth and institutional sustainability, requiring ongoing support from an apex organization.

17. **Demand orientation.** It had often been government interest that had steered the "demand" for a certain approach. Demand studies were rarely conducted at design stage. The lack of a realistic assessment of beneficiaries' capacity and demand for financial services has been named as a factor limiting project effectiveness in a

number of cases. In addition, the demand for innovative products and services was often insufficiently assessed, requiring the approach to be adjusted during implementation. Multisectoral projects had particular challenges in applying a demand-oriented approach, because their targeting of certain groups and regions primarily followed a non-financial rationale.

18. **Market-based approaches.** Market-based approaches were difficult to implement in some sub-markets, usually due to distortions such as subsidized loans or grant funding from government. The concept of cost-covering interest rates for agricultural investments was often difficult to convey to policymakers, and to achieve in practice.

19. **Innovative approaches** were introduced within the context of IFAD-supported programmes. Some have been highly successful (e.g. Ghana and India), while others did not materialize as planned (e.g. Moldova and Mozambique). Many of these innovations would have benefited from pilot testing or a more detailed foresight analysis prior to being scaled up, which was not carried out sufficiently. In addition, there has never been a critical review of lessons learned from the (successful and unsuccessful) innovations introduced by IFAD. One promising innovation was financial graduation, a recently introduced approach that has successfully targeted the very poor and excluded, for example in Kenya and Afghanistan.

20. **Sustainability.** Strengthening the longer-term viability and sustainability of financial service provision has been an explicit aim of the majority of projects, but has not always been achieved. In many cases the sustainability of financial service providers (FSPs) has not been assured, due to a lack of continued support through apex organizations, or to limited project investments, scope or duration. Enabling FSPs to offer a broader range of financial products would have been an important ingredient for sustainability.

21. **Poverty outreach.** Targeting a larger number of very poor people over a longer period of time – while striving to achieve institutional sustainability – is challenging for smaller FSPs. Often the operating costs for reaching out to the poor had been high and the interest rates had not been attractive for them. It was mainly for these reasons that poverty outreach had been limited. Thirty-five per cent of the evaluations reported benefits from IFS, in particular loans offered in connection with savings. Benefits for the very poor were shown in only 9 per cent of the projects, while 30 per cent of them registered negative or mixed results. The inherent tension between the two principles of sustainability and inclusivity has to be addressed in a strategic manner – for example, by specifying the conditions under which subsidized loans should be offered to ensure outreach to very poor clients.

22. **Outreach to women.** Overall, the review of the project sample found a good focus on poor women. Projects with positive gender results relied more on CBFOs for service delivery than those with negative or mixed results. On the other hand, those with negative or poor gender results to a larger extent involved commercial banks and credit unions or savings and credit cooperatives. Credit unions often did not specifically target women. Many of the successful CBFOs were located in South Asia.

23. **Institutional, sector and policy impacts**. Positive impacts across all institutional, sector and policy levels depend above all on the availability of funding and the ability of the project to work over all three institutional levels (macro, meso and micro). Stand-alone IFS projects (with more than 80 per cent IFS funding) were by their nature better resourced to achieve better impacts at institutional, sector and policy levels. Seventy-four per cent of projects reported institutional changes and 39 per cent had an impact at sector level, but only 22 per cent were able to influence policies. One important lesson was that wherever IFAD

is able to work with strong partners, projects are more likely to create institutional, sectoral and policy impacts. Successful partnerships in rural finance include for example those with the Irish League of Credit Unions (Belize and Ethiopia), the World Council of Credit Unions (Kenya), international NGOs (Lesotho), the World Bank (Ethiopia, Georgia and Ghana) and the UK Department for International Development (India).

C. Conclusions

24. This synthesis report has reviewed the achievements and results at both institutional and operational levels, based on the existing evaluation evidence plus studies and feedback from internal and external stakeholders. **IFAD has gone a long way since it adopted its revised Rural Finance Policy in 2009, but its full implementation will require enhanced efforts.** The synthesis report has identified as a key bottleneck on IFAD's side the limited technical capacities to effectively implement the existing systems with regard to knowledge and learning, quality assurance and evaluation follow-up. Similar bottlenecks exist on the ground, where the technical ambitions of the Rural Finance Policy are hindered by the contextual realities and the limited capacities in place.

25. **Over the years, the aspirations in IFS policy, strategy and guidance have been rising in line with the changing global context.** The accelerating pace of development in partner countries requires increasingly complex approaches, a constant upgrading of knowledge and highly technical expertise. The IFS guidance developed over time has shown continuous progress and a deepening understanding of IFS concepts. However, while considerable efforts were made to absorb international state-of-the-art knowledge, this has not equipped IFAD staff to better address the challenges on the ground. IFAD's focus on financial services for the rural poor, remote communities, smallholder farmers, women, youth, and medium, small and micro enterprises comes with very particular challenges that differ somewhat from those of most other development agencies. While efforts to bring international good practices to IFAD were commendable, there was insufficient attention paid to systematic analysis and documentation of practices in IFAD's own projects. Knowledge gaps exist in recent or niche topics, such as leasing and value chain finance, where IFAD has little technical guidance to provide and has drawn virtually no lessons from implementation. A major obstacle to the learning of lessons is that such learning often relies on grants or other niche financing opportunities, resulting in an eclectic mix of knowledge products.

26. **IFAD has the systems in place to ensure high-quality project design, but these have to be matched with adequate technical capacities.** IFAD has established systems for tracking quality issues arising from the review of project designs and for following up on evaluation recommendations derived from the review of completed projects. Both systems could be more effectively used to ensure policy coherence and learning from good (or bad) practices – if there were sufficient technical capacity to enhance the quality of the review. The depth, quantity and quality of both the PRISMA and quality assurance comments was found to be variable, and reference was rarely made to the principles of the Rural Finance Policy. Yet these would be critical for feeding back lessons from implementation and ensuring that good practices and institutional learning are consistently adopted across the whole of IFAD. In addition, quality and state-of-the art project design cannot be delegated solely to external consultants. In this respect, there is a yawning gap in terms of technical expertise at headquarters since dissolution of the Financial Assets, Markets and Enterprises (FAME) team as a knowledge and innovation hub.

27. **Although required by the Rural Finance Policy, innovative and more diverse financial services are not commonly used in IFAD projects.** At design stage, many projects envisaged the use of innovative approaches, services or products. However, these were later dropped or, if they were implemented,

performed poorly, as shown in the examples of leasing, equity funds and guarantee funds. In practice, credit lines are still the most commonly used – not because they deliver better results, but because they are relatively straightforward to design and manage, hence being in demand by IFAD member countries. Innovative and more complex approaches, on the other hand, require specialized know-how, which may not be available on the ground. This issue may be resolved where project management units (PMUs) are able to hire competent local rural finance expertise. However, in most cases the limited capacity on the ground constitutes a serious constraint on innovation in the financial sector. Similarly, the holistic (three-level) approach as stipulated in the Rural Finance Policy has not often been applied, because it requires a lot of dedication, know-how and funding, and is only feasible in large stand-alone IFS projects with strong implementing partners and intensive technical backstopping provided by IFAD or its consultants.

28. **IFAD's business model also guides demand for rural finance at national level**. IFAD's business model, based on sovereign loans, establishes incentives for governments to favour loans and credit lines. When loans become more expensive, government is likely to favour investments in areas that directly generate returns for repayment of the loan. Some countries even avoid using loan funding for technical assistance or grants. This also explains the strong focus on credit lines and loans. This represents a fundamental dilemma in countries with more developed financial sectors and a demand for more diverse and innovative financial products. In these countries, projects are hard-pressed to provide the technical assistance and capacity-building needed for a more sophisticated approach. Although public sector partners may recognize the significance of inclusive financial services, they often have neither the technical knowledge nor the systems and capacities in place to promote efficient strategies, regulate the financial sector and implement policy measures that would make a lasting impact on it. Access to finance can only evolve within an enabling policy and regulatory environment, but changes often take years, and also require the private sector to invest and be present in rural areas.

29. **The limited capacities of FSPs need to be addressed at the meso level**. While meso-level organizations have frequently been used, IFAD has paid insufficient attention to the strategic role that apexes can play in ensuring the outreach and sustainability of local FSPs. IFAD's efforts to accompany the formalization of FSPs (for example in Ethiopia and Mozambique) have not been successful, and creating institutions from scratch has generally been disappointing (e.g. Nepal and Georgia). The average duration of projects (from four to six years) was often too short to achieve solid results, and both the outreach and sustainability of the secondary-level institutions were insufficiently secured. Projects that have worked with existing meso-level organizations (apexes) were generally more successful in delivering sustainable results. One major constraint, however, is the lack of capable and sustainable meso-level institutions that can provide financial and technical support to the building of FSPs. However, establishing apexes is usually costly, requiring substantial technical assistance over a longer period, which is something that would call for further collaboration with other development partners.

30. **Within a rapidly changing global environment, IFAD requires adequate capacities at all levels in order to retain its leading role in IFS**. Globally, the term "rural finance" has disappeared. The international financial institutions are redirecting their approaches to agricultural finance and inclusive finance. It is unclear how IFAD will contribute to this debate in the future. Dismantling the rural finance team has left a vacuum in terms of technical expertise and capacity at headquarters. It is unclear if and how IFAD's engagement in the various global networks can be maintained at the same level of technical input and visibility as in the past. IFAD has to act fast to remain at the centre of rural development, to

inspire others and be inspired by others. It has to adapt its policy and communication approaches to maintain its strong role and continued presence in the field, and to continue harnessing global networks for its regional strategies and knowledge development. There will be a greater need to enhance capacity at all levels and engage with policy processes on the ground in new ways – and less need to lend funds through governments.

D. Recommendations

31. This synthesis report has found that the two most important issues are: (i) a lack of consideration of specific demand in the design of the financial services; and (ii) the insufficient capacity of implementing partners. The principles of the Policy emphasize the need to move towards market-led and demand-oriented approaches, offering a diverse set of services and products. While the diversity of instruments, services and products has increased, they seem to have been offered within traditional supply-led approaches, leading to a lack of demand orientation on the part of country interventions. A key related issue is in the weak implementation capacity on the ground. These issues must be addressed for IFAD to remain relevant and to be in demand as an IFS player. In this respect, the synthesis report offers five recommendations:

32. **Recommendation 1. Conduct a stock-taking of current IFS practices on the ground.** For instruments that have been promoted over the past decade – such as matching grants – IFAD should conduct a comprehensive assessment, for example as to: how they were designed and conceptually integrated; how they have been used by recipients; the costs involved in administering the grants; what longer-term impact they generate for beneficiaries; and to what extent they facilitated continued access to finance. Other important topics that call for learning from the field are the approaches promoted in IFAD's current strategy – such as linking business development services and finance, or integrating value chains and finance. Such an assessment would inform implementation of the recommendations that follow.

33. **Recommendation 2. Update IFAD's Rural Finance Policy and prepare a corporate IFS strategy,** with the aim of supporting consistent implementation of the Policy throughout the organization.

- The revised Policy would reflect lessons from IFAD's operations, as well as the new developments in the sector – for example digitalization. Without being overly detailed, it would present the principles of what works.
- The strategy would go deeper and would be valid for a limited timespan, for example for three years. It would provide guidance on how to strengthen the focus on financial sector development in regional portfolios, based on a good contextual analysis.
- The strategy would identify responsibilities for IFS technical support, knowledge management, and learning at headquarters, regional and country levels. The strategy would clearly describe the areas where IFAD has a comparative advantage and determine areas of strategic focus – such as graduation or agricultural value chain financing – as well as areas that require further attention, such as the use of matching grants, the sustainability of FSPs and exit strategies. The strategy would be informed by lessons from implementation (see recommendation 1), and would synthesize insights in a forward-looking manner.
- Hence the strategy would include a corporate approach to IFS capacity-building. Working with and supporting learning partnerships has been a positive investment, and should continue. The areas of focus identified in the strategy will inform further development of the IFS guidance, which should be practice-oriented and based on deeper insights regarding demand by the

target group. While the guidance has to take into account international good practices, the focus should be on IFAD's strengths – among them a focus on remote areas and poor farmers, considering the unique position that IFAD has in this respect.

- The final element of the strategy will be monitoring and evaluation, which should contribute to corporate learning and knowledge management: the use of financial instruments needs to be tracked; effectiveness needs to be assessed separately on IFS, not together with the overall component; and regular feedback into lesson-learning needs to be secured in an agile manner.

34. **Recommendation 3. Enhance strategic impacts at institutional, sector and policy levels, through a greater focus on meso-level institutions and stronger partnerships with agencies working in the sector.** IFAD should move in the direction of being a strategic change agent and facilitator of rural and inclusive finance development. In the past, the scope and targets for IFAD projects have placed a lot of pressure on delivering quick results on a large scale at beneficiary level – but what would be needed today is greater focus on longer-term results at institutional, sector and policy levels.

- IFS partnerships need to be strategic, shifting the focus beyond knowledge generation and putting a stronger focus on country-level implementation and results. Priority should be given to partners that advance and complement IFAD's expertise and capacities on the ground – for example, international NGOs or rural finance and microfinance institution networks offering effective implementation support.
- Partnerships should include cofinancing, as well as partnerships for knowledge and learning with international organizations and development partners working in related areas (e.g. value chain development).
- To enhance knowledge networks at regional and national levels, sufficient efforts and resources should be allocated (in time and finance) to building of the capacities of national rural finance consultants and technical staff within partner organizations (also using grants).
- At operational level, less emphasis should be placed on reaching out to a large number of clients, with more emphasis on facilitating change and strengthening the capacities of meso-level institutions.
- National financial inclusion strategies provide an important platform for coordinated policy engagement and implementation. IFAD should become part of this and work in close partnership with other agencies.
- Increased attention to regional and national partnerships should not diminish the importance of global partnerships and platforms, which will require dedicated focal points within IFAD to be identified through the strategy (see recommendation 2).

35. **Recommendation 4. Conduct sound analysis at the design stage and be flexible in adapting it during implementation,** to ensure that projects are demand-led, appropriate for the context and able to absorb emerging lessons and experiences**.**

- Demand studies should be part of the design and should include a clear segmentation of the demand side and the capacities of the full range of stakeholders and clients. An additional sector assessment should also be carried out, including thorough and standardized evaluations of potential FSPs and meso-level organizations. This could be based on a standard country diagnostic format (demand, supply and enabling environment) to be developed, to include a light due diligence for partners that are not known.

- Capacities to manage, implement and absorb IFS activities need to be carefully assessed. For mixed projects that include IFS components, the capacities have to be taken into account of the lead agencies – usually the ministry of agriculture – along with their limited knowledge of financial sector development. For complex multi-level approaches in stand-alone IFS operations, IFAD must be prepared either to provide intensive technical support or to work closely with other development partners (for example through cofinancing).
- Programme designs have to build in flexibility so as to react more quickly and change the selection of key partners – or even instruments – where needed. Project duration and outreach goals need to be linked in a realistic manner, to ensure that necessary processes are not cut short. The sustainability of financial services needs to be a guiding principle from the beginning.
- While most of the design processes will take place at country and regional level, headquarters technical staff will have a critical role to play in ensuring that: important policy principles are addressed (for example: demand-led and innovative approaches, and balancing poverty outreach with sustainability); and lessons are consistently learned from implementation and integrated into the design of new projects (see recommendation 2).

36. **Recommendation 5. Continue experimenting with innovative approaches and services locally,** while extracting lessons and disseminating learning across the whole of IFAD.

- Recent initiatives to promote innovative practices within a regional context (e.g. digital finance in East Africa and value chain financing in Asia) are commendable, and should be continued. Their potential should be assessed for scaling up in other regions.
- Other innovative practices that are being tested at present, and that should be promoted further, include inclusive and agricultural insurance and mobile banking. Leveraging innovative types of aggregators with good outreach to rural areas – such as rural postal networks and mobile telephone operators – is highly relevant, for example in Africa.
- More attention should be paid to innovative practices in expanding pro-poor financial services, such as group and digitally supported savings.
- Innovative practices should be documented and shared at regional and global level and across the whole of IFAD, as part of the knowledge-sharing strategy (see recommendation 2).

IFAD Management's response[1]

1. Management welcomes the evaluation synthesis report (ESR) on IFAD’s inclusive financial services (IFS) for the rural poor. Management finds the report well written and balanced and believes it provides an almost comprehensive collage of rural finance activities at IFAD over the last 10 years (2007 – 2018). This synthesis report is timely as it comes exactly 10 years after the Executive Board had endorsed IFAD's revised Rural Finance Policy.

2. Management believes that the stock-taking and systematic documentation of lessons done by this evaluation synthesis will help to further enhance the quality of IFAD's rural finance investment portfolio in a fast and evolving ecosystem. Rural finance, or "Inclusive Rural Finance", is and will continue to be a powerful approach to systemic rural transformation and responds to the need of achieving economic inclusions for IFAD's target group within the broader global development context.

3. Management appreciates the interactions with IOE during the ES process and the efforts taken to augment the review by in house consultations and a survey. Management also welcomes the incorporation of Management's comments to include standard working definitions used by this ESR to better differentiate a financial product, a financial instrument, and a financial service, and an approach vs. a theme.

4. In addition to the review of corporate-level documents, in-house interviews, focus group discussions and interviews of practitioners, a survey was conducted with rural finance consultants who had worked for IFAD. Since consultants play an important part in IFAD operations and in the ESR analysis and recommendations, it would have been useful to see a disaggregated analysis of the survey results by respondent category.

5. Scope: Management acknowledges the robust statistical scope of the ESR. However, given that ESRs are inherently based on past evaluations done by IOE (in this case 49 evaluations – 25 project and 24 country strategy and programme evaluations done between 2008 and 2017), the evolving changes in IFS operations are not captured in this synthesis report.

Recommendations

6. Management takes note of the five recommendations of the ESR and finds them to be relevant to enhance IFAD's development work in financial inclusion for rural transformation, food security and reduced vulnerability of rural poor smallholder households. Management is in broad agreement with the recommendations and is pleased to note that a number of actions and approaches that it has already initiated and is preparing to do are well aligned with the recommendations. Management's detailed response to each recommendation is below:

Recommendation 1. Conduct a stock-take of current IFS practices on the ground.

- ***Agreed****:* Management takes note of the recommendation and agrees with the need to conduct a thorough assessment of the IFS portfolio including a disaggregated analysis by region. The stocktake will build on the learning and documentation of practices that this ESR has done and is planned for 2020. There are several familiar traditional but complex instruments (notably, lines of credit, credit guarantee funds, matching grants, risk-sharing mechanisms), emerging business models and approaches (notably decentralized financial systems, graduation programming and, digitalization of demand-driven financial services) which need to be evaluated as part of the recommended assessment. As an outcome of the stocktake exercise, Management will be

[1] The final Management response was sent to the Independent Office of Evaluation of IFAD on 23 April 2019.

better informed about the potential of IFAD getting engaged in rural finance support infrastructure development and in the next generation policy work.

Recommendation 2. Update IFAD's Rural Finance Policy and prepare a corporate IFS strategy with the aim to support a coherent implementation of the Rural Finance Policy throughout the organization.

- ***Partially agreed****:* The current Rural Finance Policy is 10 years old, but is still relevant in major parts (objectives, guiding principles, intervention guidelines and implementation requirements) as confirmed by the ESR and continues to play a strategic role for IFAD in a financial sector that is constantly innovating, flexible and dynamic. The Rural Finance Policy is mutually reinforcing with IFAD's other corporate policies and strategies and has been augmented with operational guidance documents on technical issues (Decision Tools for Rural Finance and several Tool Kits). At the same time, Management acknowledges the new challenges and opportunities inherent in technological innovations in IFS. Furthermore, given existing un-circumventable market failures and the lack of a real competitive rural financial market, it is challenging to advocate for market-driven and market-priced IFSs for rural poor people. Rural poor people are mostly price-takers and depend on minimal margins as many of their market-oriented activities are heavily subsidized. Therefore, Management concurs with the need to update the Rural Finance Policy to address the aforesaid challenges in the rural market. While the overall strategic direction of the Rural Finance Policy remains relevant and will be maintained, the update will focus on promoting more member-based financial systems first for rural poor smallholder households and then linkages to banking mechanisms thereafter. The stocktake exercise to be done will be used as a basis to inform the update to the policy.

  Management believes that the issues highlighted under the recommended shorter-term corporate IFS strategy are all operational and less strategic in nature and therefore it would be more relevant and practical to develop an action plan for implementing the updated Rural Finance Policy. The strategic direction of IFAD's work on IFS will be covered by the updated Rural Finance Policy. Furthermore, the stocktake exercise will also cover issues highlighted related to regional operations, partnerships and (south-south and triangular) collaboration as well as knowledge management and learning and capacity building at headquarters, the country offices and externally. The action plan will therefore build on the stock-take planned and will provide operational guidance on responsibilities for IFS technical support, knowledge management, learning, capacity building and monitoring and evaluation. The timeframe for the development of the action plan would be aligned with the updating of the Rural Finance Policy.

Recommendation 3. Enhance strategic impacts at institutional, sector and policy levels through greater focus on meso-level institutions and stronger partnerships with agencies working in the sector.

- ***Agreed****:* Management is fully committed to pursuing the partnership concept with a greater focus on longer-term results at institutional, sector support infrastructure and policy levels. At the same time, in order to provide a holistic approach, Management upholds that the focus should be provided proportionately at all three levels in the economy – macro, meso, and micro, while focusing on rural poor smallholder households as the primary beneficiary (IFAD's mandate). Each one of these levels has its own unique, indispensable, and complementary role to play in the delivery of a diverse set of IFSs to a diverse set of demand segments in the rural market space.

Recommendation 4. Conduct sound analysis at the design stage and be flexible to adapt during implementation, to ensure that projects are demand-led, appropriate for the context and able to absorb emerging lessons and experiences.

- ***Agreed**:* IFAD's Targeting Policy focuses on the rural poor people who make up the demand side for IFSs. There is a disproportionate focus on financial service providers who make up the supply side for IFSs. There is need to emphasise on a demand-led supply of IFSs. Management commits to undertake more sector diagnostics, particularly for demand segmentation analyses as early upstream as possible as part of the project design, the results from which are then presented to FSPs.

Recommendation 5. Continue experimenting with innovative approaches and services locally, while extracting lessons and disseminating learning across the whole of IFAD.

- ***Agreed**:* Management agrees with the recommendation as it recognizes the centrality of innovative technology solutions to achieve its ambitious vision of sustainable development and inclusive rural transformation in its partner countries It is also fully aligned with the IFAD 11 commitment to develop its first corporate strategy for information and communication technology for development to (ICT4D) better and more systematically leverage innovative technology for rural transformation. However, Management notes that sometimes, such experimentation comes at a cost and includes unexpected adverse impacts (e.g., over-indebtedness) on IFAD's target beneficiaries. All experimentation with innovative approaches should have an incentive mechanism built in to compensate or mitigate any losses or adverse effects that may accrue to the target as a consequence. Functional and financial literacy are prerequisites on the demand-side capacity building agenda.

Inclusive financial services for the rural poor
Evaluation synthesis

I. Introduction, objectives and methodology

A. Introduction

1. The Independent Office of Evaluation of IFAD (IOE) produces evaluation syntheses on selected topics every year, in compliance with the IFAD Evaluation Policy. The main aim of these syntheses is to facilitate learning and the use of evaluation findings, by identifying and capturing accumulated knowledge and findings gained across a variety of common themes. This synthesis presents accumulated knowledge from existing evaluative and other credible evidence on how inclusive rural finance can enhance IFAD's development effectiveness on the ground.

2. **Rural finance constitutes a significant part of IFAD's investment portfolio.** Since 1981, IFAD has financed a total of 1,052 investment projects, of which 506 (48.1 per cent) correspond to rural finance activities. The financing, equivalent to US$3.4 billion (out of a total of US$19.2 billion), represents 17.7 per cent of IFAD's project investments.[1] In addition, IFAD has provided grants for rural financial service activities worth US$42.3 million (out of a total of US$484.3 million), or 9 per cent of all funds distributed through grants.[2] Since 1996, the average amount of funding committed to rural finance annually has been approximately US$120 million. However, the number of newly approved stand-alone rural finance projects has declined, from over 30 in 2000 to only 5 in 2016.

Box 1
Overview of terminology

Rural finance. Financial services that focus on households and businesses in rural areas, encompassing both agricultural and non-agricultural activities, and targeting poor and non-poor women and men.

Agricultural finance. Financial services that focus on on-farm activities and agricultural businesses, without necessarily targeting poor people.

Rural microfinance. Financial services that focus on relatively small-scale producers and services targeted to poor clients in rural areas.

Value chain finance. Financial products and services that flow to or through any point in a value chain in order to increase the returns on investment, growth and competitiveness of that value chain.

Source*:* IFAD Decision Tools for Rural Finance, 2010.

3. IFAD's approach to rural finance has progressed significantly since 2007, when IOE conducted the **last corporate-level evaluation (CLE) of the first Rural Finance Policy**. A revised version of the Rural Finance Policy was adopted in 2009. Since then, IFAD has been striving to expand the range of rural finance approaches and instruments adopted in its operations. Ten years on, this synthesis provides an opportunity to take stock and learn from the experience gained.

4. In its current Strategic Framework (2016–2025), IFAD recognizes the need to diversify its toolbox and introduce innovative financing instruments. The Framework also envisages rural finance to be intrinsically linked to the **inclusive rural transformation agenda**. The changing environment and the global development agenda place new demands on the financial sector to diversify services, with an explicit focus on clients and increased outreach. Therefore, several international development agencies that are active in the sector are currently reviewing their strategies.[3] It is expected that funding for access to

[1] As of January 2019. Data derived from the IFAD Rural Finance Dashboard.
[2] All Debt Sustainability Framework (DSF) grants have been considered as investment projects.
[3] According to the 2016 CGAP survey at least eight major funders representing 30 per cent of all commitments.

finance will continue to grow, because it has been increasingly recognized as an important enabler of several development objectives, in addition to financial systems development.

5. **Conceptual clarification.** The topic of this synthesis report is "rural finance", a choice that is in line with the terminology used by IFAD since its establishment. This synthesis report uses the expression **"inclusive financial services (IFS) for the rural poor"** (sometimes also known as inclusive rural finance or inclusive financial services) to emphasize the aspect of "inclusion", in accordance with IFAD's evolving corporate strategy.

    (i) IFAD focuses strongly on inclusive development in its policies and strategies, as may be seen, for example, in the policies on targeting (2008), gender equality and women's empowerment (2012) and engagement with indigenous peoples (2012).
    (ii) IFAD's current Strategic Framework (2016–2025) designates "inclusive financial services" as an area of thematic focus and highlights that "inadequate access to appropriate financial services is a key factor underlying rural poverty; it perpetuates rural people's economic and social exclusion and greatly curtails their ability to expand their assets and sustainably engage in productive activities" (p. 23).
    (iii) The 2017 high-level conference on investing in inclusive rural transformation specifically addressed the nexus between rural investment, rural transformation and financial inclusion.
    (iv) A focus on "rural financial inclusion" can also be seen in IFAD11[4] documents.[5]

6. In the last few decades, the terms used for this field have changed considerably, in line with important evolutions in the underlying concepts (see table 1 below). More recently, there has been a growing focus on financial inclusion globally.

[4] The Eleventh Replenishment of IFAD's Resources.
[5] For example Leaving no one behind: IFAD's role in the 2030 Agenda. December 2017.

Table 1
Evolution of terminology and concepts over time

Period	*Terminology*	*Definition*	*Difference from prior situation*
1970 – 1990 circa	Microcredit	**The provision of small loans, mostly by private entities**. Microcredit fosters enterprise development by providing access to small productive loans.	There was a transition from directed and subsidized agricultural credit as promotional instruments, to cost-covering services provided by microcredit organizations (often NGOs).
1990 circa	Microfinance	**Low-income**: "Microfinance is the provision of financial services to low-income people" (Consultative Group to Assist the Poor - CGAP).[6] **Small loans, savings**, other financial services emerging slowly, such as remittances, payments and micro-insurance	It was recognized that poor households need access to the full range of financial services to generate income, build assets, smooth consumption and manage risks – financial services that a more limited microcredit model cannot provide. The services were provided by the range of various microfinance institutions (MFIs), which could include formal MFIs, banks and even government MFIs.
2000 onwards	Access to finance	"Access to financial services – financial inclusion" is generally used as a synonym for financial inclusion.[7] See below. The target groups were the unserved and underserved.	It was sought to go beyond "microfinance": new product and services, a wider range of populations (upmarket and downmarket with respect to the populations reached by microfinance), a broader range of FSPs including financial technology or sales platforms, facilitated by a range of polices (beyond financial sector policy) and new actors offering financial services in rural areas (e.g. the mobile money providers) all emerged.[8]
2000 onwards	Financial inclusion	**Financial inclusion** efforts seek to ensure that all households and businesses, regardless of income level, have **access to *and* effectively use** the appropriate financial services they need to improve their lives (CGAP).[9]	More recent financial inclusion debates refer to the quality of financial inclusion. It is recognizes that simple access is not sufficient, as people may have access but may not necessarily use the services. Therefore, the emphasis is now on "usage".

Source: ESR compilation.

7. **Access to finance is highly relevant as a catalytic tool.** Access to financial services has long been considered an important strategy to lift people out of poverty, enabling them to seize economic opportunities and increase their welfare. The United Nations Secretary-General's Special Advocate for Inclusive Finance for Development[10] has highlighted financial inclusion as a catalytic tool that is capable of unlocking development opportunities and improving lives, especially for the poor. Financial services are key to leveraging investment opportunities, transforming ideas into productive ventures, scaling up projects and making value chains (VCs) sustainable, thereby improving the social and economic well-being of smallholders, the vulnerable and remotely living, and finally, contributing to economic growth.

8. **Financial inclusion is seen as crucial for achieving many of the 2030 Sustainable Development Goals (SDGs).**[11] Access to finance is recognized as contributing directly to the goals on good health (SDG 3), quality education (SDG 4), gender equality (SDG 5), access to clean water (SDG 6) and energy (SDG 7), and industry and innovation (SDG 9 – "providing small enterprises with access to finance"[12]), while it is said to have an indirect role in achieving broader goals such as no poverty (SDG 1), reduced inequality (SDG 10 – "reduce transaction cost of migrant remittances"), and peaceful solutions (SDG 16). Other important references to financial inclusion are made in the goals on no hunger (SDG 2 – "access to financial services for small-scale food producers to double

[6] CGAP, FAQ http://www.cgap.org/about/faq
[7] World Bank Finance for All, 2008.
[8] Adapted from https://cfi-blog.org/2013/02/27/microfinance-vs-financial-inclusion-whats-the-difference/
[9] CGAP, FAQ http://www.cgap.org/about/faq
[10] https://www.unsgsa.org/
[11] Achieving the Sustainable Development Goals, The Role of Financial Inclusion, CGAP and the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (April 2016).
[12] Remittances, investments and the Sustainable Development Goals, IFAD 2017.

agricultural productivity”), decent work (SDG 8 - “encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services” and “strengthen the capacity of domestic financial institutions to … expand access to banking, insurance and financial services for all”) and climate action (SDG 13 – “improve climate change mitigation … and impact reduction”), for example under the topic of inclusive insurance.[13]

B. Synthesis objectives and scope

9. IOE’s evaluation synthesis reports (ESRs) generally focus on learning, rather than on accountability. The ESRs derive their lessons primarily from existing evaluative evidence. The specific scope and objectives of each evaluation synthesis are tailored to the topic covered, to make it a relevant learning product. In the case of this synthesis, the scope and the methodology have been expanded compared to previous syntheses to address the need to cover more recent developments in the sector and within IFAD.

10. The objectives of this evaluation synthesis are thus to:

    (i) review the relevance of IFAD’s policies, guidance and knowledge on IFS and the extent to which these have contributed to innovative IFS practices in the projects and portfolios evaluated by IOE;
    (ii) review the relevance, effectiveness, sustainability and impact of the IFS models evaluated by IOE; and
    (iii) identify good practices and lessons on IFS that should inform the development of IFAD’s IFS portfolio under the Agenda 2030.

11. The time frame covered by this ESR ranges from 2008, the year after the CLE was concluded, to 2017. The ESR covers the country portfolios, loan projects and grants evaluated by IOE since 2008 that have focused on rural finance or IFS, as defined by the relative share of funding for these topics at the design stage. In addition, the synthesis covers – although in broader terms only – the development of policies, guidance and innovative approaches in IFAD since the introduction of the revised Rural Finance Policy in 2009.

12. The synthesis addresses the following main review questions:[14]

- **Policy relevance:** How well were projects aligned with the IFAD Rural Finance Policy and the respective national country policy/policies or strategies and regulatory frameworks? Do the rural finance approaches adopted by IFAD reflect current good practices and lessons learned? Was follow-up conducted on the issues raised by the CLE (2007) and has the performance of rural finance projects improved since then?
- **Strategic relevance:** Were the strategic approaches chosen appropriate and in line with the needs of the country and the target groups? How relevant and appropriate was the choice of implementing partners?
- **IFAD knowledge management:** To what extent did the revised 2009 Rural Finance Policy and the knowledge generated at IFAD headquarters-level enable innovative IFS practices within the projects and portfolios evaluated by IOE?
- **Effectiveness:** What were the results achieved? How effective were the intervention models chosen? What were the factors explaining high or low effectiveness?
- **Impact:** Which project types and intervention models have been most inclusive and successful in addressing rural poverty issues? To what extent have IFAD-supported interventions contributed to changes at institutional, sectoral and policy level?

[13] Inclusive Insurance and the Sustainable Development Goals, GIZ 2017.
[14] The detailed evaluation framework is included in annex I.

- **Sustainability:** How sustainable were the financial institutions supported by IFAD (at macro, micro and meso levels)? What are the factors enabling or hindering sustainability at the different levels?
- **Good practices and lessons learned:** What are the lessons learned from this synthesis in retrospect, and for the way forward? What are the lessons that could be learned from the experience of other international organizations? Which IFS practices have worked well and which have not? Which subset of IFS is performing well, and what are the flaws?
- **Opportunities and limitations of IFS for rural transformation and poverty eradication:** Under which circumstances were IFS practices beneficial for the rural poor and small enterprises, and which financial services made a tangible contribution to poverty reduction?

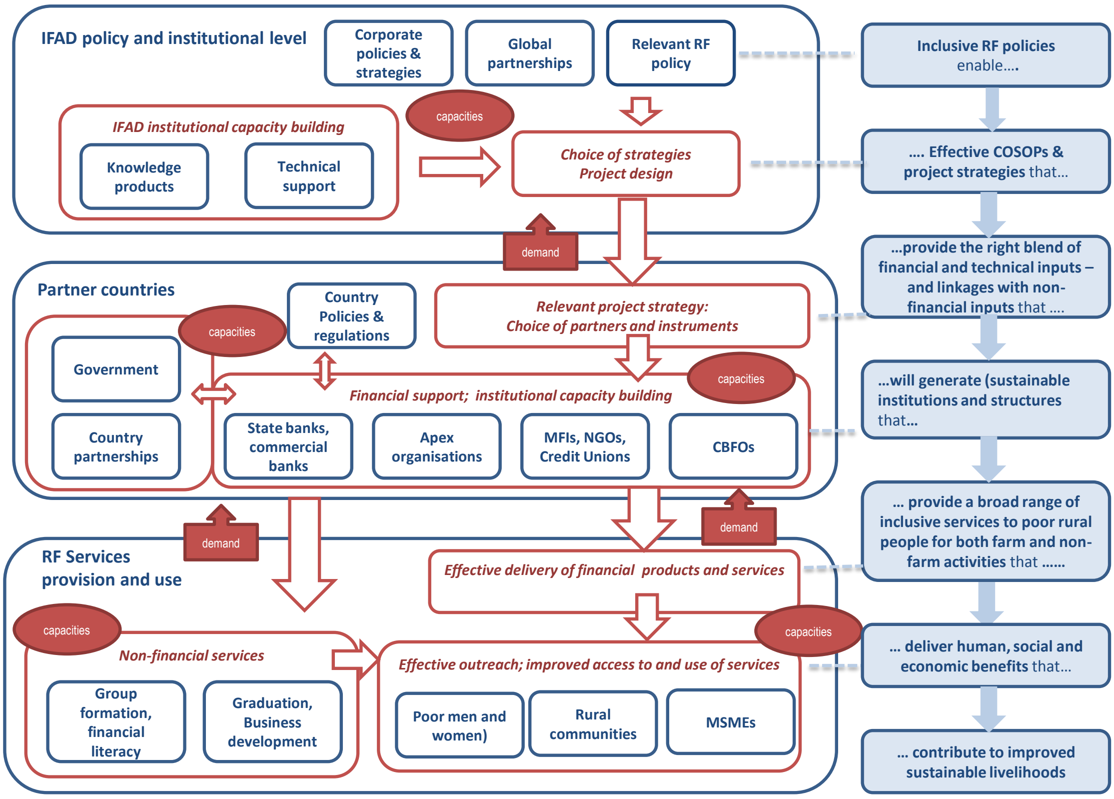
C. Analytical framework

13. The analytical framework for this ESR includes a theory of change and a classification of IFS strategic elements.

14. The **theory of change** is used to track the assumed pathway of results, from financial service provision towards inclusive development outcomes. The theory of change developed for this ESR flows from IFAD’s policy at institutional level, which includes the Rural Finance Policy, knowledge products and technical support provided at headquarters level, through and with the country involved, the regulatory framework and the relevant government and financial service providers (FSPs), down to the level of financial service provision. The theory of change (see figure 1) states as follows. Inclusive rural finance policies enable effective project strategies, which provide the required blend of financial and technical inputs and linkages with non-financial inputs to generate sustainable institutions and structures. These will provide a broad range of inclusive services to poor rural people for both farm and non-farm activities, in support of sustainable livelihoods. Access to financial services is expected to create a wide range of economic, social and human benefits, such as increased incomes and assets, investments in health and education and employment through enterprise creation or growth.

15. As the ESR explains, the assumed capacities and demand (see the dark red boxes) were often too weak for the theory of change to become effective. In particular, gaps in terms of capacities weakened the delivery of effective project strategies and the building of sustainable institutions and structures. Shortcomings were also evident between supply and demand at various levels. These issues are discussed in detail in chapters III and IV of this report.

Figure 1
Analytical framework and theory of change



Source*:* compilation of ESR.

16. **Classification of IFS strategic elements.** IFS strategies combine different elements, depending on the project's objective, structure and opportunities, and the priority assigned to the rural finance project or component. The combination and final choice of several instruments depend on the scale (share of project funds) of the rural finance focus.

17. IFS strategies typically include the following elements:

- **Level of the financial system** at which interventions are directed: micro, meso or macro.
- **Input**, of which there are two main types: financial (e.g. funding a line of credit, seed funding for a guarantee mechanism, or an equity contribution or grant) and technical assistance (e.g. advisory services, coaching or market review). The latter includes institution-building support for financial service providers (FSPs) and the meso- or macro-level institution they support; this aspect is more commonly found in stand-alone rural finance projects.
- **Channel**, which can be a public or private institution and is derived from the intervention levels: a retail financial service provider (FSP) or a community organization; an apex organization,[15] association or training institute; or a government organization (or project).
- **Thematic focus**, which indicates the approach taken, i.e. lending or guarantee schemes, digital finance, financial literacy, linking, graduation, matching grant, market review, or value chain financing (VCF).

[15] An apex institution is a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple MFIs in a single country or region. Funding may be provided with or without supporting technical service (CGAP, 2002).

- **Service provider type**, i.e. the organization that finally provides the financial services to clients: a bank, a microfinance institution (MFI), a community-based financial organization (CBFO; these include credit unions, savings and credit cooperatives [SACCOs] and village savings and loans groups), government schemes, project schemes or a private company (such as an insurer, a payment service provider or providers of financial technology [FinTech] services).
- **The financial product or service** that is delivered to the rural client (farmer, household or other value-chain stakeholder), such as savings, loans, leasing, insurance, payments, remittances, equity or (agricultural) VCF instruments[16] (including bank loans, risk mitigation products, product financing, receivable financing, physical-asset collateralization and financial enhancements).
- **Additional (non-financial) services** are often provided in a complementary way, usually by another component. Among these services are business development services, graduation approaches (which include some of the financial inputs discussed above), group formation or financial literacy.

Box 2
Standard working definitions used in this ESR

Financial products and **financial services** are used by the end consumer, the financial service user (poor household, farmer, medium, small and micro enterprises or a group of these). The offering includes a broad set of financial services tailored to the needs of poor individuals and small firms. Among these services are, mainly, savings and deposits, life- and non-life insurance, different forms of loans, leasing contracts and payment services, including digitally supported financial services. The term "financial services" is often used generally for the range of offerings or FSPs, and is also used interchangeably for financial products.

A **financial instrument** is a financing vehicle. It is defined by the International Accounting Standard (IAS 32) as follows: "a financial instrument is any contract that gives rise to a financial asset (cash, or equity) of one entity and a financial liability or equity instrument of another entity".[17] Financial instruments are classified into financial assets, financial liabilities and equity instruments.[18] The European Union further defines "innovative financial instruments" as participation in equity (risk capital) funds, guarantees to local banks lending to a large number of final beneficiaries, for instance small and medium-sized enterprises (SMEs), or risk-sharing with financial institutions to boost investment.[19] For the purposes of this study, and being the most frequently used in IFAD's IFRS interventions, the pertinent financial instruments are **lines of credit (LOCs), loan guarantee funds (LGFs), the various types of funds, equity participations and matching grants.**

D. Methodology

18. **Review of IFAD policy, guidance and knowledge documents.** IFAD has generated a substantial number of knowledge products on IFS. This ESR examines the extent to which the knowledge available at headquarters level has informed the design and implementation of IFS interventions since 2009, as evaluated by IOE.

[16] Miller and Jones (2010) classified the value chain financing instruments for the IFAD Note "Agricultural value chain finance strategy and design (2012)". Some are provided by a formal FSP (e.g. bank credit or insurance), however, most of the 16 instruments are value-chain internal products, or approaches (e.g. financial enhancements).
[17] https://www.ifrs.org/issued-standards/list-of-standards/ias-32-financial-instruments-presentation/
[18] http://www.businessdictionary.com/definition/financial-instrument.html
[19] https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/innovative-financial-instruments_en Financial instruments are classified into financial assets, financial liabilities and equity instruments. This can an asset or bundle of assets that can be traded, such as a check, draft, bond, share, bill of exchange, futures or options contract that has a monetary value or represents a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money. The European Union further defines innovative financial instruments as participation in equity (risk capital) funds, guarantees to local banks lending to a large number of final beneficiaries, for instance (SMEs) or risk-sharing with financial institutions to boost investment.

The review also explores the extent to which IOE evaluations of IFS interventions have contributed to portfolio quality and to learning on IFS.

19. **Review of recent developments in IFAD.** The former Financial Assets, Markets and Enterprises team (FAME) at IFAD has been mapping the IFS project components of ongoing and (to some extent) closed projects. For the ESR, the data were used to identify changes in IFS intervention models, in particular since the adoption of the revised 2009 Rural Finance Policy and the guidance subsequently issued. They were also applied to identify recent projects with innovative IFS practices. Furthermore, the IFAD Quality Assurance Archiving System (QUASAR) was used to review the quality assurance (QA) comments on newly designed rural finance projects.

20. **Feedback from practitioners.** In addition to the review of corporate-level documents, the synthesis report team also conducted interviews and focus group discussions. In addition, a survey among rural finance consultants provided perspectives from practitioners on the relevance of IFAD's Rural Finance Policy and on IFAD's strengths and weaknesses on the ground. The survey was sent to 275 rural finance consultants employed by IFAD starting in 2009; 86 of them responded (31 per cent).

21. **Systematic review of IOE evaluations.** The ESR systematically reviewed two samples of IOE evaluations conducted between 2008 and 2017. The first was a sample of country strategy and programme evaluations (CSPEs). The second was a sample of project performance evaluations (PPEs) and impact evaluations (IEs). The samples were used to assess the performance of rural finance projects according to IOE's evaluation criteria (relevance, effectiveness, sustainability and impact). In addition, an analysis of outliers (based on IOE ratings) helped to identify good and poor practices.

22. **CSPE sample.** A total of 36 CSPEs had been conducted at the time of drafting this ESR; 24 were selected for review. The sample was broken down into three groups based on the proportion of IFS financing. Group A includes portfolios with more than 50 per cent IFS financing (covering three countries): Egypt, Ethiopia and Moldova. Group B includes portfolios with 10 per cent to 50 per cent IFS financing (21 countries).[20] Both groups were included in the systematic review. Group C contains portfolios with less than 10 per cent IFS financing (nine countries);[21] these were not included in the systematic review.

23. **PPE/IE sample.** The IOE database contains a total of 179 project evaluations (PPEs, project completion report validations and impact evaluations).[22] The principal criterion in selecting from the remaining evaluations was the presence of IFS financing in a project.[23] A total of 49 project evaluations had IFS funding and 25 were selected for review. To establish the degree of IFS focus, the sample was broken down into four types:

(i) Projects with an IFS focus include "type A" stand-alone IFS projects with more than 60 per cent IFS financing (nine projects).
(ii) "Type B" projects have a dedicated IFS component (12 projects). Both types were included in the systematic review.
(iii) Projects without an IFS focus, but with a significant proportion of IFS funding, were termed "type C" projects; these projects do not fall under A or B but had more than 20 per cent and less than 60 per cent IFS

[20] Georgia, India 2009 and 2015, Ghana, Kenya, Mozambique 2008 and 2016, Cameroon, Viet Nam, Indonesia, Zambia, Argentina, Cambodia, Niger, Yemen, United Republic of Tanzania, Mali, Ecuador, Brazil, China, Turkey, Bangladesh, Bolivia (Plurinational State of), Nepal.
[21] Uganda, Madagascar, Nicaragua, Rwanda, Philippines, Nigeria, Jordan, Gambia (The), Senegal.
[22] Project completion report validations were excluded because they usually do not provide the technical analysis that required for this ESR.
[23] Based on data derived from GRIPS and clarified by the former PTA-FAME team.

financing (four projects). They were also included in the systematic review.[24]

(iv) "Type D" projects had less than 20 per cent IFS financing (20 projects) and, therefore, were not included in the systematic review.

24. All project evaluations were numbered for ease of reference. The unique reference numbers (marked with the symbol "#") for the sampled projects are used throughout the report and in the annexes. Table 2 sets out for a complete list of the project evaluations sampled.

25. **Qualitative data analysis.** The synthesis used a qualitative research software (NVIVO) to review the sample, and to analyse and record observations and findings. The samples for review were classified and coded using a structure derived from the typology, the theory of change, and the evaluation research questions. Each code was associated with a working definition to ensure consistent interpretation of qualitative evidence across the samples. To obtain higher-level findings, the review used interpretative analysis to process each source in the sample. This was done using the software to link the interpretative analysis of a large body of data to a matrix derived from the evaluation research questions.

26. **Documentation of project results.** Following the review, qualitative data were extracted and the prevalence and intensity of rural finance results were recorded for the project sample (25 projects), using the following criteria: no reported results (0); IFS outputs reported (+); IFS outputs and outcomes reported (++); negative IFS results reported (-); and mixed IFS results (-/+). These data provided the basis for the effectiveness analysis in chapter IV.

27. **Correlation analysis.** To determine the effectiveness of the IFS approach, the analysis established the correlation coefficient[25] between the recorded results and the financial instruments and FSPs used. A similar analysis was conducted for the full sample (25 projects, 24 CSPEs) using IOE's rating on relevance, effectiveness, efficiency and sustainability; however, the correlations were less clear, as many project and portfolio ratings also included non-IFS activities.

28. **Case studies.** The case studies explored in further depth the factors that enable or hinder effective IFS provision – such as the country's policy and institutional framework – by reviewing a wider range of project documents and country analyses that could shed light on relevant contextual issues. The case studies featured interviews with the relevant country programme managers (CPMs) to understand why certain interventions were effective and others were not. Five case studies[26] were selected, considering regional balance and different IFS models. In addition, three case studies were derived from ongoing evaluations to cover more recent practices and experiences.[27]

29. **Review of good practices and lessons** from IFAD and other international organizations. Recent evaluations from other international financial institutions (IFIs) (e.g. the World Bank, the African Development Bank [AfDB]) examine the practices and lessons learned in the IFS context from both a partner and a regional perspective. In addition, the findings of certain bilateral (e.g. the German Development Cooperation [Deutsche Gesellschaft für Internationale Zusammenarbeit] – GIZ, and the Austrian Development Agency) and multilateral agencies (the Food and Agriculture Organization of the United Nations – FAO) provide valuable insights on the latest knowledge and practices of other agencies.

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[24] Two projects (#15 Zambia, #23 Georgia) failed to implement their rural finance component and were later excluded from the effectiveness review.

[25] Correlation coefficients measure the strength of association between two variables and their sign and absolute value describe the direction and the magnitude of their relationship. The greater the absolute value of a correlation coefficient, the stronger the linear relationship.

[26] Case studies on Lesotho, Mozambique, Philippines, China and Dominican Republic.

[27] Case studies derived from ongoing or recently completed evaluations that were not yet included in the sample were: Kenya (2018 CSPE), Georgia (2017 CSPE) and Moldova (2018 PPE).

30. **Peer review and external review.** The draft ESR was subjected to a rigorous peer review process within IOE. It was also reviewed and commented upon by a senior rural finance expert (see annex XII).

E. Limitations

31. **Evaluations as the main source.** The most significant limitation relates to the depth of the analysis, included in IOE evaluations, of how and why certain IFS models do or do not succeed. As the subject matter is highly technical, the relative importance of IFS interventions and the presence of an IFS specialist in the evaluation team are likely to be the key factors determining the scope and quality of the analysis of IFS interventions. For this reason, project completion report validations were excluded from this review, because they are primarily desk-based reviews conducted by non-IFS specialists.

32. Another major limitation is linked to the time lag between implementation and evaluation. IOE only evaluates closed projects, and the number of evaluations designed since after the 2009 Rural Finance Policy was introduced is low. The evidence is drawn primarily from the evaluation of ongoing projects as part of the CSPEs and recent initiatives promoted at headquarters level (e.g. the Platform for Agricultural Risk Management, PARM, and index-based insurance). Furthermore, many of the recent instruments promoted will not have been implemented in the closed operations evaluated by IOE.

33. **Terminology.** The rural finance terminology used in IFAD documents (evaluations, project documents) is not standardized and may give rise to confusion. For example, the term "equity" is both used for equity investments in FSPs (as is the case in India) and for equity support to enterprises by means of a matching grant from the project or as channelled by a specialized fund. The term "fund" is also used in several different ways, often without clear references to the nature of the fund (which may be licensed, private or public, or purposed as grants, loans, equity or business development services, often used in combination with one another).[28] Inconsistent use of the relevant technical terms has made comparative analysis of the information more challenging and time-consuming.

34. Some new financial instruments are difficult to trace even in FAME reporting. For example, although VCF now constitutes a substantial proportion of IFAD's portfolio, it is not included as an instrument in the 2018 Rural Finance Dashboard. Therefore, the synthesis can only refer to the VCF found in sample evaluation reports.

35. **Availability and accuracy of data**. Some studies are highly detailed and provide very specific data: examples are the Georgia CSPE (2018), the Lesotho PPE#46 or the India PPE#18, which report on the performance data of the MFIs. The CSPE working papers on rural finance are a valuable source of information; however, they are not always available and recent CSPEs appear to include fewer such studies.[29] The analysis contained in IOE evaluations appeared shallow in certain cases, and lacked hard performance data on the provision of financing by projects and their partners. In other cases, the results were not appropriately reported.[30]

36. Data availability also determined the assessment of IOE evaluation criteria. For effectiveness and impact, the systematic review meticulously recorded the documented results and impact stemming from IFS interventions. For sustainability, IOE evaluations focus primarily on the sustainability of the benefit; very few studies reported data on institutional sustainability. The data were too

[28] For example, the Uruguay PPE #25 has three funds: the "Microcapital Fund", which is a grant fund in the productive component for the poorest people; a "Strategic Investments Fund" (p. 30) for grants to machinery groups; and a "Revolving Reserve Fund" in the rural finance component.

[29] Working papers on rural finance were available for the following CSPEs: Argentina (2009), Ghana (2010), Yemen (2010), Nepal (2013), India (2010), Viet Nam (2012), Moldova (2014) and Georgia (2017).

[30] For example, in the case of Uruguay, a project with one of the lowest percentages of rural finance funding (23.5 per cent), a full range of positive indicators was reported, although data to support these claims were lacking (PPE 36 – 39, pp. 10-11).

inconsistent and limited to enable a comparative assessment of the efficiency of IFS interventions.

Table 2
Sample of project evaluations reviewed in this ESR

	Project evaluation	*Project name*	*ESR reference number (#)*
Type A: Stand-alone rural finance projects	Ghana PPA (2012)	Rural Financial Services Project	8
	Moldova PPA (2012)	Rural Business Development Programme	13
	India PPA (2013)	National Microfinance Support Programme	18
	China PPA (2013)	Rural Finance Sector Programme	19
	Georgia PPA (2014a)	Rural Development Project	22
	Bangladesh PPA (2016)	Finance for Enterprise Development and Employment Creation Project	40
	Philippines PPE (2016)	Rural Microenterprise Promotion Programme	41
	Cameroon PPE (2017)	Rural Microfinance Development Support Project	45
	Lesotho PPE (2017)	Rural Financial Intermediation Programme	46
Type B: Rural finance component projects	Belize CE (2008)	Community-Initiated Agriculture and Resource Management Project	1
	Argentina CE (2009)	Rural Development Project for the North-Eastern Provinces	4
	China CE (2010)	West Guangxi Poverty-Alleviation Project	6
	Dominican Republic CE (2011)	South Western Region Small Farmers Project - Phase II	9
	Armenia PPA (2012)	Rural Areas Economic Development Programme	14
	Mongolia PPA (2013)	Rural Poverty-Reduction Programme	20
	Sudan PPA (2014)	Gash Sustainable Livelihoods Regeneration Project	24
	Uruguay PPA (2013)	Uruguay Rural Project	25
	Pakistan PPA (2015)	Community Development Programme	32
	Albania PPA (2015)	Programme for Sustainable Development in Rural Mountain Areas	33
	Malawi PPE (2017)	Rural Livelihoods Support Programme	43
	Georgia IE (2017)	Agricultural Support Project	47
Type C: >20% IFS funding, neither A nor B	Zambia PPA (2012)	Forest Resource Management Project	15
	Georgia PPA (2014b)	Rural Development Programme for Mountainous and Highland Areas	23
	India PPA (2015)	Livelihoods Improvement Project in the Himalayas	31
	Egypt PPE (2017)	West Noubaria Rural Development Project	42

Source: ESR.
CE: completion evaluation
IE: impact evaluation
PPA: project performance appraisal
PPE: project performance evaluation

Key points

- Since 1981, IFAD has financed rural finance activities in 495 out of 1,052 investment projects (47.1 per cent), worth US$3.3 billion out of US$18.1 billion total funds provided (18.2 per cent).
- In addition, IFAD has provided grants on rural financial service activities worth US$69.1 million, out of US$1.2 billion (6 per cent).
- This synthesis report uses the term "inclusive financial services (IFS) for the rural poor" (also known as inclusive rural finance or inclusive financial services) to highlight the emphasis on "inclusion", in line with IFAD's evolving corporate strategy.
- The time frame covered by this synthesis report is from 2008, when the CLE was concluded, until 2017.
- The systematic review focuses on a sample of 25 project evaluations and 24 CSPEs that were allocated rural finance funding. The data were documented in NVIVO. The analysis was conducted using qualitative methods (including the case study methodology) and quantitative methods (correlation analysis).
- In addition to IOE evaluations, the data used for this synthesis report were drawn from sources including IFAD's Rural Finance Policy, guidance and knowledge documents, the QUASAR[31] and FAME databases, focus groups, interviews and a survey conducted among rural finance consultants.
- Major limitations were the lack of standardized rural finance terminology in IFAD documents (evaluations, project documents), gaps in tracking new rural finance instruments (e.g. VCF), varying quality of reporting and the fact that certain evaluation criteria used for IOE project evaluations do not contain specific performance criteria for financial institutions (e.g. efficiency, sustainability).

[31] The Quality Assurance Archiving System, an online platform used to manage the QA review of all project designs and soon, of all grants, concept notes and COSOPs.

II. Context and background

A. Global challenges and demands on the rural finance sector

37. **Poverty relevance.** The impact of traditional financial services for the poor – namely credit, savings and payments services – on the overarching SDG 1, "End poverty in all its forms", has been emphasized in numerous studies. Access to bank accounts and payment services has been shown to have a measurable impact on poverty reduction, by improving the ability of poor people to draw on wide social networks in times of trouble, significantly enhancing their resilience to shocks, and reducing the chances of their falling further into poverty. As for newer financial services and financial support strategies, such as insurance, agricultural leasing and digital finance, it is necessary to obtain evidence on the impact of these new solutions on poor people and businesses.

38. **Access gap.** Despite the efforts of funders and policymakers, and the progress made of having 700 million people with access to formal financial services, over 2 billion adults in the poorest households are still unbanked. According to the World Bank's Universal Financial Access by 2020 goal, between 2011 and 2014, the percentage of people across the globe who own a transaction account with a bank, another financial institution or a mobile money provider has increased from 42 per cent to 54 per cent, whereas this figure varies remarkably between world regions (for example, in sub-Saharan Africa, the proportion has increased from 24 per cent to 34 per cent).[32] However, the 2017 State of the Industry Report on Mobile Money (GSMA) confirms that many of the accounts opened with mobile money providers are dormant. The situation is worse for the poorest people, of which 3 billion live in rural areas.[33] Among those living on less than US$2 per day, 77 per cent lack a formal account.[34] Access for agricultural investments and VC stakeholders also remains a huge challenge.

39. **Rural situation.** In four of the six main regions of the world, living in "rural" areas means being the least financially served group among the financially excluded: in rural areas, between 56 per cent and 72 per cent of people are still financially excluded, a figure which is exceeded only if the fact of being female in certain regions is taken into account.[35] There is a large finance gap in many rural markets, especially in less developed countries and more remote rural regions. Access to finance in rural areas is much weaker than in urban areas, especially in less developed and less densely populated regions. Challenges lie at the different levels of the financial system, while other overall factors hindering development in rural areas negatively impact access to finance, such as weak infrastructure and education levels. A recent World Bank evaluation highlights that by 2020, one billion people may still lack access to finance, and the financially excluded can be expected to live predominantly in rural areas.[36]

40. **The microfinance debate**. In the past, much emphasis was placed on microfinance. The international debate on microfinance and its value for the poor peaked in 2010. Microfinance was accused of contributing to indebtedness, which caused numerous suicides in India.[37] The severe crisis led to an overhaul of certain concepts related to what microfinance, as a development tool, can realistically achieve, and what should be done – or avoided – in the future. In the aftermath of this debate, a new body of evidence was generated, which emphasized

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[32] The World Bank, "Universal Financial Access 2020", 2019. http://ufa.worldbank.org/global-progress.

[33] IFAD. Scaling-up results. 2015.

[34] *CGAP blog*; "Measuring Financial Exclusion: How Many People Are Unbanked?", a blog by CGAP; blog entry by Asli Demirjuc-Kunt, 24 April 2012. http://www.cgap.org/blog/measuring-financial-exclusion-how-many-people-are-unbanked.

[35] McKinsey Global Institute. *Digital finance for all. Powering inclusive growth in emerging economies* (McKinsey&Company: 2016).

[36] IEG, *Financial Inclusion—A Foothold on the Ladder toward Prosperity?: An Evaluation of World Bank Group Support for Financial Inclusion for Low-Income Households and Microenterprises* (Washington D.C.: World Bank, 2015).

[37] *CGAP blog*; "Learning from the Indian Microfinance Crisis", a blog by CGAP; blog entry by Peg Ross, 15 December 2010. http://www.cgap.org/blog/learning-indian-microfinance-crisis.

understanding the impact of microfinance at the various levels, and the different financial products (see annex III).

41. **Agricultural finance as an "engine for rural transformation".** According to the G20-Global Partnership for Financial Inclusion (GPFI), there is high demand for investment capital and sustainable financial services to serve rural areas and agricultural activities that are necessary for global growth and food security, in line with SDG 2, "End hunger, achieve food security and improved nutrition and promote sustainable agriculture". FAO estimates that many of the 500 million family farms, most of which cover an area smaller than 2 hectares, are unable to obtain the financing needed.[38] The situation is not much better for VCF in rural areas, including for larger enterprises and farms, which are also important for rural livelihood development. Agricultural finance, in its different forms,[39] is recognized as a key element for rural transformation.[40] The diversity of the target group is a major challenge in the implementation of agricultural finance. The stakeholders involved in agricultural finance comprise farming households and businesses, poor women, smallholder family farms, youth entrepreneurs and middle-sized farms or larger factories in a VC, on which smallholders depend. All of these stakeholders have different potentials and require significantly different types of financial services, from village-based savings, external capital in various forms or insurance. Even non-agribusinesses may be involved. This diversity presents challenges for project design and implementation. However, it also provides opportunities for FSPs to diversify their portfolios.

42. **Beyond basic accounts and the potential of access.** Despite the significant global and national commitments made, the many years of experience gained and the continuous improvement of the approaches to promoting financial inclusion, much remains to be done to make universal access a reality. The World Bank's "Universal Financial Access by 2020" goal envisions that worldwide, women and men alike will be able to access a transaction account or an electronic instrument to store money, send payments and receive deposits as a basic building block to manage their financial lives.[41] Considering that poor women account for 1.1 billion of unbanked adults, that is, most of the financially excluded, increasing account ownership also would promote gender equality (SDG 5).[42] Notably, the Consultative Group to Assist the Poor (CGAP) emphasizes that enabling access for the poor does not necessarily prove that they use the relevant services; therefore, recently, greater focus has been placed on customer-centricity to foster usage.

43. **A focus on financial inclusion**. In 2017, the members of the Alliance for Financial Inclusion, a global network of 114 central banks and other financial regulators of 95 developing and emerging countries, signed the Maya Declaration, a commitment to pursue and measure national financial inclusion targets.[43] For the G20, several years after their initial commitment in 2010, financial inclusion remains a priority, as it is recognized to be "capable of bolstering sustainable, balanced, inclusive economic growth at the macro level and promoting economic and social inclusion at the household and enterprise level especially among financially excluded and underserved populations."[44] The global visibility of the topic helps national policymakers and regulators to pursue the goal of financial inclusion in their policies and strategies. Global guidance on measuring financial

[38] GPFI, *New Trends in Agricultural Finance*, (GPFI: 2015).
[39] Agricultural finance comprises financial services that support on-farm activities and agricultural businesses, without necessarily targeting mainly or only poor people.
[40] BMZ (2018) identifies five global megatrends: demographic change, scarceness of resources, climate change, digitalization and interdependency, flight and migration.
[41] The World Bank, "UFA2020 Overview: Universal Financial Access by 2020", 1 October 2018, http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020.
[42] *CGAP blog*; "Financial Inclusion Has a Big Role to Play in Reaching the SDGs", a blog by CGAP; blog entry by Leora Klapper, 11 August 2018. https://www.cgap.org/blog/financial-inclusion-has-big-role-play-reaching-sdgs.
[43] Alliance for Financial Inclusion, Maya Declaration: Quick Guide to Formulating Measurable Targets (2017).
[44] GPFI, *2017 progress report to the G20 Leaders* (GPFI: 2017).

inclusion is available for both countries and donors, with a variety of data sets being tracked on the supply and demand side.[45]

44. **Recent trends.** According to the G20/GPFI, four key trends will be decisive in continuing progress towards financial inclusion over the coming years:

- the 2030 Agenda for Sustainable Development and its positioning of financial inclusion in the spotlight of inclusive and sustainable development;
- the rapid development and penetration of digital innovations, which provides an unprecedented opportunity to accelerate financial inclusion;
- the increased attention paid to the importance of responsible access to and usage of financial services for the poor, which means strengthening the focus on underserved and vulnerable groups; and
- the mainstreaming of financial inclusion alongside the other financial-sector development goals of stability, integrity and consumer protection, which reinforces the notion that the goal of financial inclusion and other financial-sector goals can be mutually supportive.

45. As a global thought leader on financial inclusion, CGAP, in its "Vision 2025", identified the trends shaping emerging economies, such as a younger and more urban population, labour markets with fewer opportunities for upward mobility, and increasing migration streams. According to CGAP, "the role of financial services as an enabler to improve poor people's lives will continue to be central". Box 3 highlights the major challenges facing support strategies.

Box 3
CGAP's Vision 2025 – challenges to full financial inclusion

Lack of customer-orientation of existing products or offerings

More people having access, but only a few use the services

Diversification of providers and business models

Population is younger and more urban

Rising inequalities

Risk of digital divide[46]

Increasing vulnerability because of climate change

Polarized labour market, with most poor employed in agriculture (in 2016, 65 per cent[47])

Role of government remains critical

Source: CGAP, *The Vision of the Future: Financial Inclusion 2025*, June 2017.

The global trends in microfinance and financial inclusion, and the emerging wealth of good practices from other development partners and international leading think-tanks, has influenced the development of IFAD's Rural Finance Policy and strategic frameworks, which are presented in the following section.

B. Evolution of IFAD's Rural Finance Policy

46. **First Rural Finance Policy (2000).** The central role played by rural finance in achieving sustainable poverty alleviation led to the formulation of the first Rural Finance Policy in May 2000. The Policy was designed to provide an overall framework for IFAD's work in rural finance and represented a significant change for IFAD's interventions, acknowledging the inefficiency of the rural finance tools used

[45] The World Bank, *How to measure financial inclusion*, 19 February 2015. http://documents.worldbank.org/curated/en/350551468130200423/pdf/953850BRI0Box30Inclusion0Strategies.pdf.
[46] "Digital divide" is a term that refers to the gap between demographics and regions that have access to modern information and communications technology, and those that don't or have restricted access. This technology can include the telephone, television, personal computers and the Internet. WhatIs.TechTarget.com, "Digital divide", 2019. https://whatis.techtarget.com/definition/digital-divide.
[47] International Labour Organization. 2018. World employment and economic outlook.

during the previous years. In particular, the Policy noted the unsustainability and inefficiency of projects based on subsidized credit covered by government guarantees, or on credit channelling through agricultural development banks, which distorted rural financial markets and resulted in poor outreach. Rural finance being one of the essential tools in combating rural poverty, the purpose of the Rural Finance Policy was

> "*to increase the productivity, income and food security of the rural poor by promoting access to sustainable financial services … strengthen the capacity of rural financial institutions to mobilize savings, have their costs covered and loans repaid, and make a profit to increase their saver and borrower outreach … bridging gaps in equity or loanable funds until institutions are fully self-sustained*".[48]

47. The 2000 Rural Finance Policy called for a focus on strengthening sustainable rural financial institutions, and with regard to IFAD's engagements, addressing challenges such as stakeholder participation, shortcomings in the rural financial infrastructure, institutional sustainability with outreach to the rural poor, and the establishment of a conducive policy and regulatory environment.

48. **The CLE 2007** prepared the ground for a new and much more detailed Rural Finance Policy (2009) with a fundamental strategic shift – from considering credit as input-supply, towards a comprehensive approach at the three levels of the financial system (macro, meso and micro) to achieve the sustainable provision of financial services to the rural poor. The recommendations emphasized the need to clarify the norms set out in the Rural Finance Policy (at the time, the 2000 Policy). The CLE also examined systemic aspects, i.e. processes, reforms undertaken on procedural factors such as staff capacity-building, performance measurement and quality assurance processes. The recommendations referred to an integrated quality check to ensure compliance with the Rural Finance Policy and to build greater in-house capacity.

49. Another internal reference document was the **IFAD Strategic Framework 2007-2010**, a major corporate policy that emphasized "the importance of developing inclusive financial systems and fostering innovations to increase rural poor people's access to a wide variety of financial services, including savings, investment and working capital loans, insurance and remittances." The revised Rural Finance Policy was expected to respond to emerging challenges at global level, among which a worsening financial crisis, volatile food and agricultural commodity prices, and the perils of climate change. The results of the independent appraisal of IFAD's aid effectiveness in rural finance (2009) were used as the main external source.[49]

50. **New focus of the 2009 Rural Finance Policy.** Notably, apart from the stand-alone goal of improving access to finance for unbanked rural populations, in the 2009 Policy, rural finance was conceived of as a tool to achieve several other development goals. IFAD's approach in the context of rural finance was also recognized to tackle cross-cutting themes, such as women's empowerment and natural resource management.

51. The policy introduced a financial systems development approach, which recommended targeting all three levels of the financial system: the micro level (individuals and FSP sustainability), the meso level (the building of effective financial markets, second-tier institutions and apexes); and the macro level (governments, policy and sectoral strategy formulation, as well as ensuring regulation and supervision of micro-level FSPs and meso-level institutions).

52. **New challenges.** IFAD is addressing new challenges and helping to set up new vehicles relating to innovations in agricultural finance (see chapter V). IFAD focuses on agricultural finance and agricultural VCF. The Rural Development Report

[48] IFAD, *Rural Finance for the poor, from unsustainable projects to sustainable institutions* (Rome: IFAD, 2001).
[49] CGAP, *Smart Aid* (Washington, D.C.: CGAP, 2009).

(2016) recognizes that the diversity of the target group (which comprises, for example, smallholder farmers, on- and off-farm micro and small businesses, female entrepreneurs, young business start-ups and wage labourers) calls for a broad view of the financial services required, including structured finance transactions such as value-chain financing,[50] the linkage of formal and informal channels, financial education, and identifying ways to make subsidies "smart".[51]

C. Lessons learned from other IFIs

53. The Internal Evaluation Group of the World Bank Group[52] concluded that financial services other than credit are proving to have the same, if not greater, benefits for the poor. Although the majority of technical assistance focuses on credit, a significant – and slightly increasing – share focuses on payments, savings and insurance. However, it also found that the World Bank Group's approach to identifying and tackling constraints on financial inclusion at the country level is not sufficiently comprehensive. This is of particular concern for areas that are not subject to prudential regulations, such as mobile money and rural savings and credit cooperatives. The main recommendations were to:

(i) clarify the World Bank Group's approach to financial inclusion, by making it evidence-based and comprehensive, focused on enabling access to a range of financial services with benefits for the poor in a sustainable manner, and specifying when and how to use subsidies;
(ii) find and replicate innovative delivery models through a sequenced and evidence-based approach to innovation;
(iii) strengthen partnerships by advocating clear strategies, results frameworks, and monitoring and evaluation arrangements; and
(iv) implement new diagnostic tools for country-level diagnostics and strategies to guide financial inclusion work.

54. The internal evaluation of the AfDB Microfinance Policy, Strategy and Operations (2000-2013)[53] reviewed its 94 projects, 21 of which were still active in May 2013. The main findings and conclusions were that: (i) the approach was relevant, but the strategy was too ambitious and unfocused (2006 Microfinance Policy and Strategy); and (ii) portfolio performance was weak, with inadequate design preventing efficient implementation and with insufficient market analysis and unsustainable partners on the ground. Some of the lessons and recommendations appear to be relevant for IFAD to consider:

(i) "Unless credit components are designed as stand-alone projects, they produce weak results. The Bank should avoid including microfinance components in larger non-financial sector projects.
(ii) The lack of a well-designed and functioning information system prevents the Bank from adequately learning from its operations or from taking part in the knowledge sharing and partnership initiatives launched by other cross-border funders to learn and improve their financial inclusion operations.
(iii) The Bank should consider stopping indirect financing to retailers through government and state-owned apexes. The creation of national state-owned apexes, notably by transforming government project units, should be discouraged, as existing apexes have not demonstrated their efficiency and effectiveness."

[50] IFAD, *Agricultural value chain finance strategy and design* (Rome: IFAD, 2012)
[51] IFAD, *Rural Development Report 2016* (Rome: IFAD, 2016).
[52] IEG, *Financial Inclusion, A foothold on the ladder toward prosperity?: An IEG evaluation of World Bank Group support for financial inclusion for low-income households and microenterprises: approach paper* (Washington, D.C.: World Bank, 2015).
[53] AfDB, *Fostering Inclusive Finance in Africa, An Evaluation of the Bank's Microfinance Policy, Strategy and Operations* (Abidjan: AfDB, 2014).

D. Lessons from other development agencies

55. The Rural and Agricultural Finance Learning Lab (2018) elaborated on various themes, among which "how to influence decision makers in agricultural finance".[54] In 2016, the Initiative for Smallholder Finance[55] and other bodies called for concerted action to serve 450 million smallholder farmers across the developing world. As this is a highly diverse group, CGAP categorized them into three high-level segments: non-commercial, commercial in loose VCs, and commercial in tight VCs. The study emphasizes that "quantifying the need for agricultural financing assumes (estimated at US$200 billion) that farmers can convert financing into income increases (cash or in-kind) that justify the cost of such financing." It also stresses that, in addition to credit, many smallholder households stand to benefit significantly from access to savings accounts, insurance, and mobile transactions. As for the current supply of smallholder finance, the study notes that, out of the total amount of US$56 billion of funds lent for South and Southeast Asia, sub-Saharan Africa and Latin America, US$14 billion is provided by formal FSPs and approximately US$17 billion by VC actors, while informal and community-based FSPs provide US$24 billion.

56. The Agricultural Finance Position Paper of GIZ and the German Federal Ministry for Economic Cooperation and Development (BMZ), published in 2017, proposes principles on how to address the challenges encountered in the context of agricultural finance, some of which are relevant to IFAD's activities. For example, it is recommended to introduce:[56]

(i) better policy coordination between finance and agriculture;
(ii) a greater focus on local resources and savings, which also applies where many rural finance interventions are still credit-driven;
(iii) smart subsidies: for IFAD, there is no information on the extent to which matching grants are applied in a smart way and thus contribute to sustainable access to and provision of finance; and
(iv) an integrated approach to disaster risk management, e.g. by considering the financial and non-financial instruments that work complementarily with one another.

57. The following lessons were drawn from the implementation experiences of several agricultural support projects – supported by GIZ – that have an agricultural finance component or activities.[57]

(i) **Partnership with FSPs.** Establishing high-performing partnerships with financial institutions that define clear roles and responsibilities and make partner contributions explicit remains a challenge, especially when the business case for the financial institution is not clear and/or promising.
(ii) **Financial products.** Most financial institutions do not offer adequate financial products for agricultural actors for a variety of reasons, one of which is that their staff have limited knowledge of agriculture. When supporting them in the development of new financial products, the changes required in the FSP's policies, procedures and processes tend to be insufficiently considered. In addition, cultural issues within an FSP that does not have sufficient experience in serving the new customer segment can also pose challenges. The transaction costs associated with serving this market and the lack of alternative distribution and communication channels are two factors that contribute to the high operational costs involved in working with agricultural actors, and these high operational costs subsequently lead to high interest rates.

[54] MasterCard Foundation, RAF Learning Lab and Dalberg Advisors, *How to influence decision makers in agricultural finance*, Learning brief 4 (Washington, D.C.: RAF Learning, 2018).
[55] Initiative for Smallholder Finance, MasterCard Foundation, USAID and Dalberg Global Development Advisors. *Inflection point. Unlocking growth in the era of farmer finance* (Washington D.C.: RAF Learning, 2016).
[56] BMZ *Positionspapier Agrarfinanzierung* (Bonn: BMZ, 2017).
[57] GIZ, *Analysis of GIZ Approaches to Improve Access to Agricultural Finance* (Bonn: GIZ, 2017).

(iii) **Long-term funding.** Often, local FSPs lack the long-term funding required to engage in financing investments in the agricultural sector. This hinders their ability to serve clients and offer specific products, especially longer-term loans for asset investments. Local FSPs are mainly funded by their clients' savings, most of which are short-term in nature. Often, sources for long-term funding are not available, such as loans or subordinated debt, or equity from development finance institutions or local banks.

Key points

- The impact of traditional financial services for the poor – namely credit, savings and payments services – on the overarching SDG 1 on poverty has been highlighted by numerous studies.
- Access to bank accounts and payment services has a measurable impact on poverty reduction, improving the ability of poor people to draw on wide social networks in times of trouble, significantly enhancing their resilience to shocks, and reducing the chances of their falling further into poverty.
- Despite the efforts made by funders and policymakers, and the progress achieved in terms of enabling 700 million people to access formal financial services, over 2 billion adults in the poorest households remain unbanked.
- In rural areas, between 56 per cent and 72 per cent of people are still financially excluded, a figure which is only exceeded if the fact of being female, in some regions, is taken into account.
- The central role of rural finance in achieving sustainable poverty alleviation led to IFAD's first Rural Finance Policy, in May 2000. The 2000 Policy called for a focus on strengthening sustainable rural financial institutions, and with regard to IFAD's engagements, addressing challenges such as stakeholder participation, shortcomings in the rural financial infrastructure, institutional sustainability with outreach to the rural poor, and the establishment of a conducive policy and regulatory environment.
- The CLE 2007 prepared the ground for a new and much more detailed Rural Finance Policy (issued in 2009) with a strategic fundamental change, namely, a shift away from considering credit as input-supply towards focusing on the varied aspects of a comprehensive approach at the three levels of the financial system, to achieve the offering of financial services for the rural poor in a sustainable way.
- The revised 2009 Rural Finance Policy focused on improving access to finance for unbanked rural populations. It envisaged rural finance as a tool for poverty alleviation. The current Strategic Framework emphasizes the crucial role of finance for rural transformation.
- The World Bank recognizes the need to focus on: sustainable access to a range of pro-poor financial services; specifying when and how to use subsidies; innovative delivery models; stronger partnerships; and new country diagnostic tools and strategies.
- The AfDB recommends focusing on stand-alone financial projects, developing effective information systems and refraining from channelling finance to retailers through government and state-owned apexes.

III. The IFAD Rural Finance Policy: knowledge and learning

A. Relevance of the Rural Finance Policy

58. **The 2000 Rural Finance Policy.** The main thrust of the first Rural Finance Policy, issued in 2000, focused on sustainable rural financial institutions. Table 3 sets out the focus of the 2000 Rural Finance Policy and how major topics evolved in the revised 2009 Policy. The two major changes introduced in the 2009 Policy are the guidelines on applying a holistic approach at the three levels of the financial system, and the six guiding principles.

Table 3
Main topics of 2000 and 2009 versions of the Rural Finance Policy

2000	*2009*
Focus on strengthening sustainable rural financial institutions - Encouraging stakeholder participation - Building a rural financial infrastructure - Enhancing institutional sustainability with outreach to the rural poor - Promoting a conducive policy and regulatory environment	Guidelines: **Holistic approach** at the three levels of the financial system (micro, meso, macro). **Six guiding principles:** - Variety of financial services - Wide range of FSPs - Demand-driven and innovative approaches - Market-based approaches, avoiding distortions - Long-term strategies, sustainability and poverty outreach - Policy dialogues and enabling environment for pro-poor rural finance

Source*:* 2000 and 2009 versions of the Rural Finance Policy.

59. The 2000 Rural Finance Policy, with its focus on sustainable rural financial institutions, does not draw a specific distinction between interventions for different country types and focuses on the sustainability of institutions more generally. Moreover, the policy does not explicitly discuss differences between country environments, addressing, rather, interventions tailored to the context. One of the statements within the 2000 Rural Finance Policy specifically refers to "only those MFIs that have demonstrated their capacity for resource mobilization, cost coverage, profitability and dynamic growth deserve assistance. Such institutions may be found in all financial sectors".

60. **2009 Rural Finance Policy.** The revised 2009 Rural Finance Policy is designed as a principle-based and comprehensive paper. The policy elaborates on challenges and opportunities in the sector, defines "rural finance" and its stakeholders, sets out the objectives, approaches and references to major corporate policies, defines guiding principles, sets out guidelines for implementation at the various levels, and provides recommendations for implementation. It provides guidance on solutions for different country contexts and for all levels of the financial system, including informal finance approaches. Annex VII to this ESR provides detailed comments on the 2009 Policy.

61. The 2009 Policy also recommends assessing the demand side, i.e. the realities faced by the local population as well as the FSP landscape and the gaps between them.[58] It also recognizes that "partner countries in conflict and post-conflict situations, and areas recovering from natural disasters, also require workable responses to re-establishing and strengthening rural finance institutions, bridging the gap between emergency relief, rehabilitation and sustainable development."

[58] "Assess the demand for financial services, the supply from existing financial institutions, and the gaps between demand and supply. Consider the variety of possible financial and non-financial services that could improve the livelihoods of the targeted clientele, without assuming that credit is always a binding constraint for rural households. Savings, income transfers and graduation models, or welfare activities, may be better suited to their needs" (2009 Rural Finance Policy).

62. **Multilevel approach.** The guidelines on "holistic financial sector development" recommend engagement at three levels – macro, meso and micro. Promoting financial service provision with a financial sector perspective was a modern and well-researched approach at the time of developing the revised Rural Finance Policy, and continues to be so today. This multilevel approach focuses on strengthening the capacity of actors at all levels of the financial system, to ultimately expand the frontiers of financial access and improve the stability and crisis resilience of the financial sector as a whole.

63. However, the Policy's holistic approach often proves challenging in the context within which IFAD projects work. For example, in Ethiopia, Ghana and India, important preconditions for a holistic approach are met, such as a government committed to and engaged in financial sector development, other development partners in the financial system working along similar lines and on these aspects, and a range of FSPs that are present in the project regions and willing to serve the selected target groups. For many projects and country contexts, however, the holistic approach may appear to be rather ambitious, and, as shown in the review sample (chapter IV), only a small number of projects were able to implement a multilevel approach.

64. **IFAD's corporate strategies**. IFAD's corporate strategies are a reflection of global challenges. They show how the topic of rural finance/IFS has evolved, both within and outside IFAD:

(i) **IFAD Strategy 2007-2010:** In line with the Rural Finance Policy, this Strategy briefly delineated rural finance as one of six strategic objectives and suggested access to "a broad range of financial services" provided by a diversity of sustainable financial institutions, based on a systemic financial sector development approach (that is, to focus on sustainability at all levels of the financial system).

(ii) **IFAD Strategy 2011-2015:** This Strategy followed the same line as the previous one and added the perspective of "financial services that can support the development of **small** rural enterprises within and around agriculture – particularly beyond the very small scale that may be served by microfinance". This means expanding the target group beyond "poor rural people or households (and their organizations)", the focus of the 2009 Rural Finance Policy. Including the phrase "beyond the very small scale" notes this expansion of the target group.

(iii) **IFAD Strategy 2016-2025:** This Strategy finally introduced a number of new concepts, for example the term "inclusive financial services (IFS)", a change of wording that was not rooted in the Rural Finance Policy and that reflects the evolution of the global debate. As a consequence, many of IFAD's subsequent documents referred to IFS, and not to rural finance. In addition, the Strategy refers to the Remittance Facility and to PARM.[59] Finally, the Strategy also uses the term "innovative financing instruments", although without explaining this means.[60]

65. **Recent issues**. The current Rural Finance Policy is sufficiently broad and generic and encompasses many pertinent themes. However, changes in the global environment require coverage of further, more recent issues, such as: (i) the changing climate, which calls for innovative resilience-building strategies in all projects; (ii) the fact that women are among the poorest and most vulnerable groups, which would require a clear gender focus; and (iii) the global trend towards increased urbanization and megacities. While IFAD's recent Strategy (2016-2025) attempts to incorporate these changes, the policy, by its nature and given that it

[59] PARM is an outcome of the G8 and G20 discussions on food security and agricultural growth. PARM is a multi-donor partnership between developing nations and development partners to make risk management an integral part of policy planning and implementation in the agricultural sector. IFAD is a major strategic partner. See http://p4arm.org/.
[60] The IFAD 2017 Conference Report provides details about "innovative approaches to finance agrifood investments by smallholder farms and other SMEs".

was drafted in 2009, does not cover newer priorities or themes, such as rural transformation or VCs. Furthermore, the policy, as a general and principle-based document, can neither reflect lessons gained from IFAD implementation over the last decade, nor take into consideration IFAD's strategic changes in terms of overall direction and organization in the same period.

66. IFAD has sought to address the tension between a static policy and a rapidly changing context by issuing a series of documents on emerging IFS strategic issues. The 2009 Rural Finance Policy was complemented by a series of additional documents providing strategic orientation, including new terminologies, concepts and priorities after its adoption – among which IFAD Strategies – and thematic studies on classical (matching grants, postal savings) and innovative financing mechanisms. Some documents, such as the Scaling-up note (2015) or the latest IFAD Strategic Framework (2016-2025) have also added a number of new aspects, such as digital finance, climate finance, weather index-based insurance or VCF. The inclusion of new key topics that are important for financial sector development and non-financial support programmes provide appropriate support to IFAD's future strategies.

B. IFS knowledge and learning

67. **Learning and knowledge in the Rural Finance Policy.** The revised 2009 Policy highlights the importance of knowledge sharing, systematic and collective learning from projects, and good practices and partners. Strengthening and documenting IFAD's rural finance capacities and knowledge is achieved by learning systematically and collectively from its own projects, from good practices and from the experience of its partners. In addition, engagement with strategic partners would help IFAD to improve the quality and impact of its projects and strengthen its capacity to promote learning, knowledge sharing and innovation.

68. The Rural Finance Policy identifies the Rural Finance Thematic Group, which includes the three Rome-based agencies – IFAD, FAO and the World Food Programme – as a conduit for disseminating knowledge within IFAD and sharing information and experience within and beyond IFAD's boundaries. The group has been active in the past years; however, in recent years, according to interviews, the level of engagement has decreased.[61]

69. **Guidance instruments**. Under the revised 2009 Rural Finance Policy, starting from 2010, guidance instruments on IFS were developed in the form of toolkits, notes and manuals (see table 4). In addition, a number of guidance instruments do not focus on, but refer to, IFS: examples are the How to do note: Public-private-producer partnerships (4Ps) in Agricultural Value Chains (2016), which refer to private funding e.g. VCF arrangements; the Toolkit on Smallholders (2016), which refers to linking farmer groups with financial institutions; or the Toolkit on Pastoralism (2018), which refers to climate finance mechanisms and insurance (2016) and to "basic services such as credit, savings and insurance". The actual usage and impact of the guidance documents is unknown, in particular regarding the extent to which they have actually supported the integration of new and complex topics into design and implementation (see section D below).

[61] IFAD, *2017 Joint Update on RBA Collaboration* (EB 2017/122/INF.4).

Table 4
Overview of IFAD technical guidance on IFS/rural finance

Year	*Title*	*Type of guidance document*
2010	IFAD Decision Tools for Rural Finance	Manual: Knowledge-management tool for decision-making support for project development and implementation
2011	Weather Index-Based Insurance in Agricultural Development	Technical Guide (author: Weather Risk Management Facility, IFAD)
2012	Agricultural value chain finance strategy and design	Technical Note (suggestions and guidelines for the design and implementation)
2012	Matching grants	Technical Note
2014	Community-based financial organizations	Toolkit series: Inclusive rural financial services toolkits on key issues faced in addressing rural finance in rural development programmes; each thematic toolkit comprises three documents: “teaser”, “how to”, “lessons”
2014	Key performance indicators and performance-based agreements in rural finance	
2014	Lines of credit	
2014	Loan guarantee funds	
2014	Linking matching grants with loans: Experiences and lessons learned from Ghana	Technical Note
2015	Scaling-up note: Inclusive Rural Financial Services	Technical Note
2015	Youth access to rural finance	Toolkit
2016	Digital financial services for smallholder households	Toolkit
2016	Formalising community-based MFIs	Toolkit
2018	Access to finance for renewable energy technologies	Toolkit
2019	*Climate-smart agriculture investments*	*Toolkit (forthcoming)*

Source*:* ESR.

70. The Rural Finance Policy and its supporting guidance provide comprehensive orientation and detailed input on design and implementation, covering several themes arising in these processes. As emerging from knowledge grants/partnerships or IFAD or partner studies, new themes were continuously explored over time in the form of additional technical guidance, i.e. decision tools, toolkits and technical notes. These provide orientation on several topics – those already covered by the Policy, including in further detail, as well as additional subjects. The additional guidance focuses more on certain themes, target groups or approaches that the Policy does not explore extensively, such as digitalization or youth.

71. **Guidance formats.** The purpose and format of these documents vary, and the reason for choosing a certain format over others for a given product is unclear. The material is provided in various formats, including manuals, technical notes and toolkits (each comprising of three notes). The eight toolkits are clearly technical documents, while the three technical notes – Agricultural value chain finance strategy and design, Matching grants and the Scaling-up note: Inclusive Rural Financial Services – tend to include a strategic focus, providing further information on the rationale of an approach (the “why”) and less emphasis on technical guidance (the “how”).

72. Generally, the existing guidance instruments are high-quality, in-depth documents. They are based on field experience and pilot testing, often resulting from projects with additional input from grant projects, and, therefore, are based on the lessons learned by both IFAD and other international practitioners. However, the results of the application of this guidance are not systematically collected, analysed and fed back into the system. This would enable testing and integration of feedback on the

implementation of these tools, as well as the development of tailor-made guidance for IFAD's projects and partners, while also ensuring a learning curve and follow-up on the topic.

73. **Thematic areas.** The printed knowledge products on IFS as presented above were developed, starting in 2010, as a series of 14 guidance documents. Generally, the selection of topics derives from the Rural Finance Policy and explores technical subjects in more detail; however, the selection of topics appears to be slightly random and there does not seem to be a clearly defined structure guiding the development of the series. The topics can be clustered into the following IFS thematic areas:

(i) approaches (CBFOs, formalizing community-based MFIs, value-chain financing);
(ii) financing instruments (credit lines, guarantee funds, matching grants);
(iii) financial delivery mechanisms (digital finance);
(iv) financial products (payments, remittances, insurance);
(v) target-group specific financing approaches (youth access, smallholder finance); and
(vi) financing in other development contexts (finance for renewable energy and, forthcoming, climate-smart agriculture).

74. The strong focus on printed knowledge products has hindered a quick institutional learning process. In addition, there was no support by special transmission belts, such as direct support or systematic sharing of insights. Thus, the accumulated knowledge remained relatively static. Individual topics were not updated e.g. with insights from implementation or new global learning, in a series or through follow-up documents on the same topics. Instead, a constant flow of new topics was discussed. One of the reasons for this is the limited amount of funding available to update these knowledge products.

75. The technical level may be overambitious, in some instances. Furthermore, the question of how knowledge products can be integrated more systematically into an institutional learning process remains unresolved. For example, continued knowledge could be offered about "what works in practice", adding information gained over time from implementation, in an organized way. Finally, knowledge from global fora, knowledge partnerships and conferences is available and is of a high technical level. However, transferring this to a broad and diverse audience in IFAD, and integrating it into the processes of design, implementation and evaluation remains a challenge both at IFAD headquarters and in the regions (CPMs, project management units [PMUs] or country counterparts). Ensuring that comprehensive and up-to-date institutional knowledge is actually used by consultants is another challenge.

76. While the knowledge products generally reflect the latest knowledge in the sector[62] and are informative, well edited and attractively presented, little can be said about the extent to which they have been used. The CPMs interviewed for this synthesis report confirmed that they are aware of these products and refer to them at the time of project design. However, they generally prefer not to go deeper into what are perceived as highly technical and complex issues and rely, rather, on specialist consultants to address IFS issues during design or supervision as they arise in specific circumstances. Likewise, the extent to which consultants rely on these documents in practice cannot be assessed.

77. **Thematic studies** (see box 4 below) were used to analyse the developments in the environment and in IFAD. The studies also added new themes and set the strategic focus more clearly, based on lessons generated in the meantime (e.g. "more holistic policy advice is necessary to manage rural finance within rural transformation"). A main limitation of these studies is that they heavily depend on

[62] Apart from the products dating back to 2010, which may have the potential to be updated.

global and regional grants, their main source of funding. Other sources of funding are scarce.[63]

78. With the exception of matching grants (Ghana), there are no systematic reviews of practices and lessons drawn from implementation. A thematic and cross-country stock-take on frequent instruments and topics, such as guarantee fund design and implementation, credit line good and bad practices, working with state banks, supporting apex structures, or success factors from village savings and loan association (VSLA) implementation would have been important to inform further practice.

Box 4
Selected IFAD thematic studies contributing to IFS learning

Linking matching grants with loans (2014): Experiences and lessons learned from Ghana. This study examines the approaches, lessons and impacts on beneficiaries, and the role of banks.

Appropriate Warehousing and Collateral Management Systems in sub-Saharan Africa (2014). Four types of alternative finance instruments or collateral such as inventory credit, public or private warehouses, were identified to facilitate access to warehouse receipt finance in favour of smallholder farmers in nine sub-Saharan countries.

Country-level policy engagements (2016). This study explored lessons from 23 policy engagements in the financial sector; it provides examples of the forms that policy engagement in certain countries (Djibouti and Uganda) or contexts can take.

Sending money home: Contributing to the SDGs, one family at a time (2017). Here, data and analysis of remittances and migration trends were presented. The document considered the SDGs, e.g. because 40 per cent of all remittance flows go to rural areas.

The African Postal Financial Services Initiative (2018) presents lessons from 11 African countries engaged in a regional programme supporting the remittance systems of postal financial services.

Remote sensing for index insurance: Findings and lessons learned for smallholder agriculture (2018) discussed bottlenecks in providing index insurance to this target group, results from test cases, and information on the feasibility of remote sensing technologies.

Source*:* ESR.

C. Learning partnerships

79. Learning partnerships with global or regional key actors have helped to support the testing and development of innovative approaches and to process learning. Most of these partnerships have a long record of accomplishments, and all have generated crucial knowledge. IFAD has joined key partnerships with CGAP, the Improving Capacity Building in Rural Finance project (CABFIN) and its Rural Finance and Investment Learning Centre (RFILC), MIX Market, FundaK, the Canadian Cooperative Association, the African Rural and Agricultural Credit Association and Asia-Pacific Rural and Agricultural Credit Association (APRACA) regional networks, and the Participatory Microfinance Group for Africa (PAMIGA). More recently, the Microinsurance Centre at Milliman, the Eastern Africa Farmers' Federation and the Smallholder and Agri-SME Finance and Investment Network (SAFIN) were added.[64] The list of implementation partners is long and includes development agencies such as the United Nations Capital Development Fund, the International Labour Organization, GIZ/BMZ[65] and the Swiss Economic Cooperation and Development,

[63] While, in the early 2000s, grants were not clearly linked to implementation, in more recent times the approach has been to clearly and strategically link grant activities with country portfolios and projects; and to use them to fill knowledge gaps or address emerging knowledge needs. For example, in relation to micro insurance grants, three country operations in Georgia, Kenya and China were included from the outset.
[64] Smallholder and Agri Small and Medium Enterprise (SME) Finance and Investment Network (SAFIN), "Who we are", 2019. https://www.safinetwork.org/who-we-are.
[65] German Federal Ministry for Economic Cooperation and Development (BMZ) Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

global foundations and microfinance practitioners that participate in a regional network, for example PAMIGA.

80. An important strategic partner was CABFIN. The partnership generated the following results as of 2016:[66]

- three regional studies on smallholder finance, for which 32 innovative finance and investment ventures were analysed;
- redesign of the RFILC Internet platform, which led to an 86 per cent increase in average monthly user visits, an indication of the greater value perceived by users;
- development of seven new or improved training courses on key topics, which were delivered in 25 regional and global training programmes, including the renowned Boulder Institute of Microfinance's annual three-week Rural and Agricultural Finance Program (RAFP); and
- learning of lessons from implementation on the fragmented nature of agricultural finance specialists, the high demand for technical inputs and the need for documentation of good practices.

81. In light of the availability of CABFIN and the RFILC[67] and its resources, and many other international publications, a shortage of concepts and technical knowledge in agricultural financing does not seem to cause the bottleneck. What is missing, however, is an analysis of the lessons learned and a comparison of theory and practice. An exercise to extract lessons from implementation in IFAD would significantly enhance this knowledge.

D. IFS Grants

82. **Global grants.** Global grants were effectively used to foster knowledge partnerships. The grant recipients were often think-tanks or lead agencies within a regional context (e.g. the African Rural and Agricultural Credit Association [68] or APRACA[69]) or thematic area (e.g. PAMIGA[70] or the Consortium for Entrepreneurship and Employment for Youth Access to Financial Services). Overall, the choice of partners is highly valid, as these include internationally renowned agencies that are at the forefront of the thematic debate in their specific field. Several partnerships ran over several phases, such as those with CGAP, Fundación Capital (FundaK), the Canadian Cooperative Association or CABFIN. The financial inclusion data platform MIX Market received three consecutive grants from 2007 to 2015, to introduce performance monitoring on rural financial services. Cooperation with MIX Market was terminated after three phases and numerous training courses on performance reporting for FSPs and other practitioners, despite the transparency of FSP operations being a priority. Notably, partnerships and grant projects have provided key inputs for many IFS knowledge products in the past.

83. The **choice of topics** emerged over time and is broad and highly relevant, responding to global trends and knowledge gaps repeatedly identified during implementation, such as "what works in rural finance", "reaching out to the poorest or priority target groups" or "how can digital finance be implemented in the rural context". The following main themes lie at the core of the knowledge partnerships (for details on grants, see annex VII to this ESR).

- Building sustainable rural finance institutions with outreach to the rural poor (PAMIGA)
- Increasing the transparency of IFAD's FSP partners, measuring the performance of MFIs (MIX Market)

[66] IFAD, *CABFIN Grant Result Sheet* (2017).
[67] Website of the Rural Finance & Investment Learning Centre (RFILC), http://www.ruralfinanceandinvestment.org/.
[68] African Rural & Credit Association. Website: http://afraca.org/.
[69] Asia-Pacific Rural and Agricultural Credit Association. Website. http://www.apraca.org/.
[70] . PAMIGA is an MFI network active in 10 African countries.

- Agricultural finance innovations and inclusive investments for agriculture (CABFIN/RFILC)
- Scaling up innovative financial inclusion and graduation approaches in Africa outreach (FundaK)
- Awareness of financial service needs, research and dissemination of lessons (CGAP 3, 2014-2016)
- Financial inclusion for vulnerable groups and digital finance (CGAP 4)
- Product innovation, outreach and digital financial services, linking MFIs and remittance providers; creating second-tier organizations (Canadian Cooperative Association)
- Inclusive insurance (Micro Insurance Centre at Milliman)
- Eastern Africa Farmers' Federation[71]

84. Box 5 summarizes the major results, outputs and lessons of the outreach grants of FundaK.

Box 5
Outreach project (FundaK): main results, outputs and lessons

The Outreach Project (FundaK) was implemented in three African countries. It reported that the majority of beneficiaries were women

The project leveraged additional funding in some of the three countries, and new opportunities are being prepared.

An innovative "minimum viable product app" was developed, and was used by FundaK to formulate a table-based basic skills training course for beneficiaries.

Ten blogs and an interactive website were published, meetings with CPMs were held, two international workshops were organized, and at the end, FundaK held a presentation at IFAD headquarters in a knowledge event organized by the division formerly known as the Policy and Technical Advisory Division, with the aim of spreading awareness of graduation approaches and integrating more of these components in future rural programmes.

An important lesson drawn from implementation was the importance of involving government staff in co-creating effective approaches and encouraging them to actively participate in aspects of project implementation.

Source*:* IFAD Grant Results Sheet FundaK (2018).

85. **Regional grants.** Regional grants promoted cross-country learning and capacity building, based on synthesized learning from a given region. They also facilitated innovative products across a number of countries facing similar challenges, for example by motivating providers, product pilots, country diagnostics or capacity building measures. For example, one regional grant[72] promoted a VSLA model to specifically target youth in several countries. In Egypt (2016 CSPE), that grant supported a commercial bank in contributing to market diagnostics for an ongoing project at the time (the Agricultural Development Project) conducting dialogue to encourage commercial banks to enter the microfinance sector and engaging in a market review diagnostic. The grant enabled youth to access savings and loan services through VSLAs. In addition, the dialogue motivated two of the country's nine commercial banks to enter the microfinance sector.

86. A major shortcoming of regional grants is that often, the link with the country portfolio is very limited. The Zambia country programme evaluation reports the example of two regional grants[73] in which the assistance provided to the Zambian rural finance sector was delivered in the form of technical assistance and training

[71] With the Eastern Africa Farmers' Federation as the lead recipient with legal capacity; the Latin American Youth Center as the financial administrator and manager; and Columbia Business School, Susterra Inc., Believe Green, Arizona State University, Ashoka, Enactus, International Labour Organization, Jain Irrigation Systems, National Implementing Partners.
[72] Engaging Commercial Banks in Rural Finance in Algeria, Egypt, Jordan and Morocco 2005-2007.
[73] African Rural and Agricultural Credit Association Development Programme (US$1,100,000), and support to the second phase of the Rural Finance Knowledge Management (US$1,300,000).

via workshops and visits to other countries in the region, including Kenya, Malawi and Uganda. Although these grants did not directly benefit the lending portfolio, they were still perceived as being relevant to the advancement of knowledge in the field. A similar experience was reported in Georgia (2017 CSPE), where relevant exchange and innovations in the financial sector were supported by IFAD grants but were never scaled up through the lending portfolio.

87. **Country-specific knowledge grants**[74] addressed the challenge of weak performance by government and other in-country partners by strengthening institutional, implementation and policy capacities, particularly in fragile contexts. They also allow for innovating in thematic areas or for using approaches that can be scaled up subsequently through IFAD's country programme, as reported in Moldova.[75] In Kenya, the Kenya Women's Finance Trust, a long-standing grant recipient of IFAD, provides credit through groups to rural women forming small-scale businesses. These groups have played an important role in supporting women beneficiaries' access to rural financial services for on- and off farm income generation activities (Kenya CSPE, 2018).

E. Learning from IOE evaluations

88. Since 2001, IOE has conducted three evaluations with a thematic focus on rural finance. In principle, these evaluations have contributed to IFAD's learning.

89. **China thematic evaluation on rural finance (2001).** This study was an important milestone, recommending that IFAD should end credit lines managed by project management offices (PMOs) and move towards a systemic institution-building approach. In particular, the idea was to stop working through these offices, which had delivered credit in four projects, and explore a more effective approach consisting in the establishment of a reform programme for rural credit cooperatives (RCCs). The study concluded that sustainability would be enhanced if project credit were channelled through the existing rural financial infrastructure, i.e. shifting credit delivery, recovery and the associated risk to RCCs. This implied strengthening their capacity to sustainably operate on their own.[76]

90. **Thematic evaluation of Rural Financial Services in Central and Eastern Europe and the Newly Independent States (2005).** The study examined IFAD's approach to rural financial services in the region, assessing the main features of the implementation experience of four projects and analysing the achievements made in reaching the rural poor through rural finance. The study also identified cross-cutting issues and searched for replicable upscaling models. The purpose of the evaluation was to identify options for improvement with respect to ongoing operations and future strategies of rural finance in the region, and to extract lessons learned for project design and implementation. The most important insights were:

    (i) as an organization without direct country presence and with loans to governments as its principal instrument, IFAD would enhance complementarity and impact by partnering with other donors on the ground;
    (ii) the quality of rural finance recommendations at the appraisal stage generally needs improvement, and specifically, an assessment of the financial institutions suggested as partnering institutions for IFAD;

[74] Out of 13 CSPEs reviewed in which the grants portfolio included identifiable rural finance grants, only three had grants that complemented the loan portfolio (Moldova, Zambia and Bangladesh). Four CSPEs had rural finance grants that clearly did not complement the loan portfolio (India 2010, Indonesia, Kenya and Egypt). The remaining six CSPEs did not analyse the rural finance grants, or at least not at the level of detail that would allow for a judgement to be made.
[75] The Moldova CPE reported capacity-building for business service providers and participating financial institutions (on site monitoring and follow-up services), and for newly created enterprises. The specific grants are not named.
[76] The study also examined design considerations for the new approach emerging from the study, some of which were particular to China, such as IFAD loan use procedures and funds to be passed through local governments, and the case for amended Ministry of Finance regulations on the transfer of funds or sparking the interest of RCCs.

(iii) in a rapidly changing rural and macroeconomic environment, the appraisal of financing components should be shifted to the implementation phase, which would require budgets to be amended accordingly; and

(iv) for newly established institutions, considerable grant funding and international technical assistance will be required to ensure a proper start and longer-term sustainability.

91. **The 2007 CLE on IFAD's Rural Finance Policy** took stock of the interventions financed since 1996 and identified the following issues as the reasons for the weak performance of rural finance in IFAD:[77]

(i) the design process of rural finance components is long and comes late in the overall project timeline;

(ii) implementation is managed by units and partner institutions that do not have adequate technical expertise;

(iii) the resource allocations, in particular from the administrative budget, are insufficient to ensure an adequate amount of technical in-house expertise in rural finance;

(iv) the reporting lines allow for political interests rather than technical considerations to be decisive, which threatens sustainability;

(v) there is a lack of sector analysis, giving way to supply-led directed credit with over-defined targeting; and

(vi) the more sophisticated design applied in recent projects is associated with technical challenges during implementation.

F. IFAD in-house capacities as a critical factor

92. In the follow-up to the CLE on rural finance (2007) and the CGAP SMART Aid reviews (2009, 2013),[78] IFAD has made great progress towards strengthening institutional capacities to ensure consistent implementation of its 2009 Rural Finance Policy (2009). The section focuses on the human resources, institutional processes and data systems established to enable learning and capacity-building on IFS within IFAD. This section argues that within a decentralized structure, it will become even more important for IFAD to provide the human resources and data systems required to work across the headquarters, regional and country levels.

Human resources

93. The CGAP's SMART Aid reviews (2009, 2013) highlighted the rather limited human resources dedicated to IFS at headquarters level as posing a major challenge to the enhancement of the quality of the IFS portfolio in IFAD.

94. **Technical support team.** Within IFAD, in the past decade, the specialized Rural Finance Team, in what was previously known as the Policy and Technical Advisory Division (PTA) played a major role in facilitating the implementation of the Rural Finance Policy. It managed global grants and contributed to regional grants, engagement in international fora, and generally, the advancement of learning, knowledge generation and dissemination. As such, the former PTA Team was engaged in the preparation of knowledge products and in the organization of trainings and learning events in Rome and elsewhere. The Team, as the custodian of the Policy, was responsible for quality enhancement in the design and implementation of IFS operations. Finally, the Team was also engaged in international expert fora, partnerships and networks, such as the Capacity Building in Rural Finance (CABFIN) Partnership[79], the Microfinance Network, SAFIN, CGAP,

[77] In 2009, approximately 20 per cent of IFAD's investment focused on rural finance.

[78] IFAD participated in the SMART AID reviews in 2009 and 2013. The review is an external assessment of microfinance funders conducted with a view to improve institutional effectiveness. Its indicators assess five areas agreed upon by all funders as being critical for effective microfinance: strategic clarity, staff capacity, accountability for results, knowledge management and appropriate instruments.

[79] The CABFIN project is a knowledge collaboration undertaken with FAO, GIZ/BMZ, UNCDF, WFP and the World Bank. It runs the Rural Finance Investment and Learning Centre (RFILC) knowledge platform, which is managed by the FAO and funded by the CABFIN partners to disseminate resource documents and capacity development material from around the world. The RFILC is a jointly supported Internet platform to disseminate knowledge managed by FAO.

the Financing Facility for Remittance, and PARM. Developing and managing global and regional grants and extracting lessons was among the major tasks of the former PTA Team.[80] Overall, this highly qualified and well-networked unit was decisive in increasing IFAD's global visibility and bolstering its reputation in the field of IFS. It acted as a catalyser of knowledge and learning, moving the organization forward and linking it to its global and regional peers.

95. IFAD has invested in capacity building, organizing a total of 23 rural finance thematic workshops, events and training courses since 2008. Through partnerships with CGAP and MIX, IFAD has been able to train staff, particularly in performance monitoring and in the capacity-building of non-specialists. IFAD's partnership with MIX had the specific objective to "support IFAD and its partners to improve their capacity in performance monitoring". By the time the last MIX grant, titled "Improving Monitoring and Effectiveness in Rural Finance" (2011-2014), was completed, the e-learning course had attracted participants from IFAD headquarters and from the field, most of whom came from Africa. The review of the MIX grant (2014) concluded that although uptake of the three e-learning courses was good, a more systematic approach would be required to generate the capacity for producing and managing robust performance information in projects and partners.

96. The first wave of IFAD's decentralization in 2018 left a gap in expertise at the Fund's headquarters, as the core Rural Finance Team was dismantled. While it is reasonable to place technical support capacity in regional hubs, where it is closer to IFAD's operations, the move left a vacuum in IFAD headquarters, given the central role of the Rural Finance Team in ensuring the consistency of IFAD's approach to IFS, networking with global IFS players, introducing state-of-the art practices and leveraging knowledge and support in the different regions. If the system established over the past years is expected to continue functioning, it would be necessary to create a well-staffed IFS knowledge unit in Rome, with the capacity to provide advisory services to projects. Otherwise, there is a risk that performance may further diverge between regions and countries, as described below.

97. **Programme management.** At the operational level, the CPMs had a pivotal role in translating the principles of the Rural Finance Policy into practices on the ground. With IFS constituting such an important part of the IFAD portfolio, the CPMs were expected to understand basic IFS principles and the range of innovative instruments and services promoted by IFAD. However, the overall investments in human resources were limited, and the CPMs and project staff were not systematically introduced to IFS knowledge. In addition, CPMs usually have limited time to participate in events and trainings or to familiarize themselves with the host of knowledge products available. Considering the strong influence that governments have on project design, staff may need to receive better guidance on the approaches, instruments and practices that IFAD should and should not support.

98. In practice, CPMs relied mostly on external consultants for project design and implementation support. A shortcoming of this approach was that it did not support consistent implementation of the Rural Finance Policy and related guidance across projects, regions and IFAD. As noted by several respondents to the survey, the consultants often did not refer to the Policy and guidance, but rather relied on their broader experience and knowledge instead. In addition, consultants often worked in isolation within their area of specialization (regional or technical), and rarely had opportunities to share knowledge across IFAD.[81] Several respondents also referred to the "overuse of the same consultants", often within the same projects, as an important reason for the lack of innovation and the same mistakes being repeated.

[80] Annex VII contains a list of eight large grants under FAME management.
[81] The majority of survey respondents (64 per cent) indicated that they frequently or regularly work for IFAD; however, only 12 per cent stated that they work for IFAD both at project and headquarter levels.

IFAD would need to adopt a much more systematic approach to strengthen consultants' understanding of IFAD's approach to IFS, for example by integrating them into knowledge networks at the regional and national level. At the same time, this would enable IFAD to benefit more systematically from the knowledge and experience available from consultants.

99. It is therefore not surprising that IFAD's performance in terms of IFS programme design and management remains uneven. The review of IFS projects[82] shows that IOE's ratings of IFAD's performance as a partner differed significantly between regions.[83] Furthermore, IFAD performed better in countries where it had larger portfolios and a fully dedicated CPM covering one country only (e.g. China, India, Peru, Sudan and Bangladesh). For 10 IFS projects, IFAD performance was unsatisfactory; those were often part of small country portfolios managed by a CPM covering several countries (e.g. Zambia, Haiti, Belize, Albania). Seven out of these 10 countries had less than 30 percent of IFS funding. On the other hand, in projects that had a clear focus on IFS, IFAD was more likely to field the IFS expertise required for project design and supervision. A similar observation can be made with regard to the diversity of financial instruments used: the range of IFS instruments and services seems to be larger in the Asia and the Pacific region, and more limited in the other regions (see figures 8 and 9, annex V).

100. Where IFAD performed poorly as a partner, the evaluations usually referred to the quality of supervision (in particular, earlier projects supervised by the United Nations Office for Project Services, UNOPS), the quality of monitoring and evaluation, and the failure to address shortcomings in design in a timely manner. The poor quality of technical design was specifically noted, for example, in the project evaluations of Eswatini,[84] Lesotho (#46) and Mozambique.[85] Predesign studies were not conducted or not used, risks were not assessed and global lessons were not considered. Frequent turnover of CPMs was a recurrent issue. For Georgia, another small country portfolio, the IE's comments on the lack of active consultation with donors during the design phase and at the early stages of implementation meant that the envisaged cofinancing or the project did not materialize.

[82] Those classified as Types A, B and C (p. 7), all with more than 20 percent of IFS funding.
[83] Among all IFS projects in which IFAD performance was rated fully satisfactory (5) or better (27), the Asia and the Pacific Region had the largest share (37 per cent), while IFAD displayed satisfactory performance only in one project in East and Southern Africa Division (4 per cent). The total number of IFS projects rated in PPAs/PPEs and project completion report validations was 79 (see ARRI database, 2018).
[84] IFAD, Rural Finance and Enterprise Development Programme, PPE 2019.
[85] IFAD, Rural Finance Support Programme (PAFIR), project completion report validation 2015.

Box 6
The Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) in Kenya – a case for substantial technical assistance

The Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) in Kenya was classified as a "problem project" at the time of the midterm review, or MTR (2014). The design was highly ambitious and included a number of innovative instruments, such as a risk-sharing facility, a credit facility, an innovation facility, a business support service facility and a financial graduation facility. PROFIT was managed by a programme coordination unit at the Ministry of Finance, which was expected to procure a number of technical support providers. The MTR concluded that the design underestimated the challenges linked to a programme coordination unit being fully embedded in the systems and procedures of the Government of Kenya, among which the layers of decision-making required for the implementation of planned activities, the lengthy communication processes, and the management of procurement processes, including the recruitment of staff and hiring of service providers. Only after massive technical inputs by IFS experts from IFAD headquarters and international consultants both during and after the MTR, which, among other aspects, led to the cancellation of the innovation facility, did the project start to deliver.

Sources: Kenya CSPE (2018), PROFIT MTR (2014).

Institutional processes and data systems

101. The institutional processes for programme designing and monitoring are currently being revised. Recognizing the need for IFS expertise to be present at headquarters level, as well as at regional and country levels, this appears to be of the utmost importance. In addition, a number of databases are being created; these may not only help to ensure a coherent approach to IFS, but could also be harnessed for learning purposes.

102. **Quality assurance.** In the follow-up to the Independent Evaluation of IFAD (2004), IFAD established a system for quality assurance, which included the quality enhancement (QE) function, to provide upfront guidance during project design, and the quality assurance function, to add an independent external quality review process in the final stages of project design. For IFS projects, the QE function was performed by the Rural Finance Team, which provided specific technical comments on new project designs. With the restriction of the technical divisions in IFAD that occurred in 2018, however, the QE function ceased to exist. The QA function is now performed by a unit of the Corporate Services Support Group (CSSG), which reports to the Vice-President.

103. The Quality Assurance Group has created an online database, QUASAR, which documents the key issues flagged by the QA. A review of the information available on the QUASAR database shows that the comments are highly diverse in terms of quantity and quality.[86] For example, the comments fail to question the rationale for designing a revolving fund, despite the well-known criticisms made against this instrument; the interest rate debate at wholesale and retail level; or the assessment of the capacity of the target group or of the FSPs. The main constraint appears to be the availability of rural finance expertise to provide QA comments. For greater consistency, the system would require a standard for QUASAR commenting on compliance with the Rural Finance Policy and its principles, as well as guidance that should be used consistently by the different reviewers.

104. In principle, the QUASAR database is an appropriate supervision and feedback tool. It could be used more effectively for checking compliance with the Rural Finance Policy, tracing quality issues and improving design. It has the potential to become an effective steering instrument if used in a standardized but also accessible way,

[86] Sometimes, the comments are clear and consistent, as for example in the case of Armenia (2014), Bangladesh (2014), Egypt (2011) or Mozambique (2017). However, often, only marginal details regarding rural finance are tracked, as for example in #08 Ghana (2011), in which it was observed that "*only about 25 per cent of enterprises to be created and supported by the project are likely to secure loans from the financial sector, even though the financial analysis of model enterprises assumes all of them will be able to secure such loans*".

by providing clearer guidance on the required conceptual and technical inputs and a regular rural finance technical screening of the content. The lessons from QA could then be fed back into operations and used to foster institutional learning. The participation of a rural finance expert is critical, however, to avoid the rather mild observations and recommendations made in a number of cases.

105. **Portfolio review**. The CGAP SmartAid report (2013) highlighted the insufficient tracking of IFS projects in the portfolio. While IFAD conducts an annual corporate portfolio review, this activity does not have a specific focus on rural finance. Yet, learning from the IFS would help to understand diverse challenges and exceptional opportunities that IFAD has been facing in the field, and to inform future operations, improve alignment with the new strategic framework and develop strategic reorientations. In 2018, IFAD launched the Thematic Dashboards, among which the Rural Finance Dashboard, presenting live financial data from IFAD operations and some basic analytical tools. This excellent tool needs to be matched by performance data on IFS operations, which should be reported and reviewed on a regular basis. While project-level data are available in the Operational Results Management System, additional analysis is required to identify the specific performance trends and challenges for IFS projects, as well as key lessons from design and implementation.

106. **The President's Report on the Implementation, Status of Evaluation Recommendations and Management Actions (PRISMA).** Follow-up on IOE recommendations is traced in the PRISMA. The 2018 PRISMA reported on six CSPEs and project evaluations that contained relevant IFS recommendations.[87] This includes two project evaluations that required IFAD to broaden its approach to rural finance – essentially by including a diversified range of products and approaches – and received satisfactory follow-up: in both cases, the CPMs performed further studies to explore innovative services and approaches (Philippines, Egypt). However, in other two cases, follow-up was inadequate.[88] In the remaining two cases, the recommendations themselves were rather general.[89] These examples show that PRISMA has the potential to ensure consistent follow-up on areas displaying low performance, in line with the Rural Finance Policy. However, a certain level of IFS knowledge and expertise is required for the recommendations to be sufficiently specific and for the responses to be adequate.

107. A review of the PRISMA database, which is maintained by OPR, provides a broader picture of the quality of both the recommendations and the follow-up.[90] The most recent version of the PRISMA database (2017) available for review by this ESR traces the follow-up done on 87 IFS-related recommendations (out of 110 recommendations) from evaluations conducted since 2006. The majority of the recommendations (57) were more general in nature, while 30 recommendations were relatively specific with regard to the approaches, services, products and FSPs suggested. Only in 20 cases did the CPMs provide a specific and well-informed

[87] Bangladesh CPE, India CPE, Philippines PPE (#41), Egypt PPE (#42), Malawi PPE (#43) and Mozambique IE.

[88] The subrecommendation from the India CPE (2015) to the effect that the "rural finance sub-sector needs more attention given the so far limited responsiveness in financing village groups" did not receive a response; the recommendation (no. 2) made in the Bangladesh CPE (2014) that "access to credit should remain a priority for the IFAD portfolio in Bangladesh" further specified in a subrecommendation that "new project designs should include specialized credit products and services" was responded to in a rather generic manner, including reference to a project "organising micro-enterprises in clusters and around value chains using micro-credit".

[89] The recommendations from the Malawi PPE and the Mozambique IE only suggested the continuation of traditional IFS approaches (microcredit, women's credit groups) and thus did not trigger a specific response.

[90] For example, the 2015 CPE for Moldova contains a clear and excellent recommendation to "diversify from the approach of channeling the bulk of (IFAD) loans to lines of credit (…) IFAD needs to strategize more effectively concerning its role; develop exit strategies in some areas and expand its coverage in others (…) IFAD and the Government need to consider ways to encourage the banks to increase the use of their own resources (…)".

response with regard to IFS; the other responses were either rather broad (50)[91] or did not even address the recommendation (17).

108. Even more striking is the fact that the core principles of the Rural Finance Policy are not consistently applied. With regard to the policy principle of supporting "access to a variety of financial services", only 10 recommendations called for a diversification of the IFS portfolio and the services provided; 13 recommendations suggested a focus on microfinance only, instead of suggesting a wider range of services and products.

109. **Explaining the policy disconnect.** This section points to the need for IFAD to ensure that sufficient technical capacity for support of IFS operations is available at headquarters, regional and country levels, to ensure a consistent implementation of the Rural Finance Policy. It is beyond the scope of this synthesis to evaluate the implementation of this Policy. However, the significant capacity issues flagged above are important to adequately understand the disconnect between the guidance principles promoted by the Rural Finance Policy and the implementation of IFS operations on the ground. These will be further explored in the next chapter.

[91] For example, for Belize (#01), there is a recommendation that "reflows from the Rural Credit Fund need to be quarantined for continued support to the two participating credit unions". The response (PRISMA Database, 2017) does not explain what happens to the reflows of the credit line. Apparently, there is no transparency on the final ownership of the fund. For Egypt (country programme evaluation, or CPE, 2006), some rather broad observations are made, such as that "project performance should be reviewed and results disseminated", or "to identify innovative financial instruments relevant to the needs of the unserved" while the response should have focused on the need to explore commercial lending and policy dialogue, which in technical terms would require a much deeper analysis.

Key points

- The 2009 Rural Finance Policy is designed as a principle-based and comprehensive paper. It provides a range of options for tailoring solutions to the specific country and regional contexts.
- The 2009 Policy also recommends assessment of the demand side, i.e. the realities faced by the population in the relevant areas, as well as the FSP landscape and the gaps between both. The IFAD target group identified in the Policy is excessively narrow, focusing on the poor and low-income people; for example, it does not mention the wider range of VC actors.
- Promoting financial service provision with a financial-sector perspective was a modern and well-researched approach at the time the revised Rural Finance Policy was developed, and remains so today.
- Recent developments and concepts in rural finance are reflected in IFAD's corporate strategies and various papers and guidance.
- A number of thematic studies have been prepared, mainly reflecting international practices. They provide detailed technical and state-of the art insights. The technical quality is high; however, it may be excessively demanding for non-technical staff.
- The variety of knowledge products, guidance and toolkits follows different formats, without an obvious reason why certain formats were chosen over others.
- Overall, there is a strong focus on printed knowledge products, and the knowledge, once presented, is rather static. Follow-up work on a topic is rare; in most cases, it is non-existent.
- Learning partnerships with global or regional key actors have helped to support the testing and development of innovative approaches and to process learning. Partnerships such as the Rural Finance and Investment Learning Centre (RFILC), which is supported by IFAD, FAO, GIZ/BMZ, the United Nations Capital Development Fund (UNCDF), the World Food Programme and the World Bank, and their resources were instrumental in introducing global lessons and thereby strengthening conceptual and technical knowledge in IFAD.
- Within IFAD, the Rural Finance Team (within the former PTA Division) played a major role in facilitating the implementation of the Rural Finance Policy in the past decade. This highly qualified and well-networked team was decisive in increasing IFAD's global visibility and reputation in the field of IFS.
- During the first wave of IFAD's decentralization in 2018, IFAD dismantled the core Rural Finance Team at headquarters level. This move left a vacuum in IFAD Rome in terms of ensuring the consistency of IFAD's approach to IFS, networking with global IFS players, introducing state-of-the art practices and leveraging knowledge and support in the different regions.
- A number of databases are being created. These may not only help to ensure a coherent approach to IFS, but could also be harnessed for learning purposes. However, an appropriate level of IFS capacity would still have to be available in-house to ensure that high standards of quality, as stipulated by the Policy, are met and that important lessons are tracked across regions.
- The review of the existing databases (QUASAR and PRISMA) has shown that comments are often not substantial and insufficiently aligned with the Rural Finance Policy principles. Furthermore, IFAD still does not conduct the regular review of its IFS portfolio suggested by the CGAP SmartAid report (2013).

IV. Findings on IFS implementation

110. This section reviews the achievements, issues and challenges encountered by IFS operations at implementation level, using evidence from IOE evaluations. It is argued that although the principles of IFAD's Rural Finance Policy are generally valid, in practice, meeting the policy's ambitions has been challenging. The review shows that to date, the achievements are mixed; while proven and relatively straightforward IFS approaches have yielded good results in reaching out to IFAD target groups, the implementation of innovative and more complex approaches has clearly met limitations.

111. The analysis of the IFS sample starts with a review according to the principles of IFAD's Rural Finance Policy, before moving to a review based on selected IOE evaluation criteria. The Policy principles are reviewed separately because, although some operations covered by this synthesis report were designed before the 2009 Rural Finance Policy was introduced, the examples provided by the projects may yield important lessons for policy implementation. After this stage, the review follows standard IOE evaluation criteria: relevance, effectiveness, impact and sustainability. Outreach, which is usually treated as a component of effectiveness in IOE evaluations, will be discussed separately, because it is an important criterion in judging inclusiveness. The IOE criterion of efficiency is not covered because the data were insufficient to enable a comparative assessment.

A. The IFAD Rural Finance Policy principles in practice

112. The six principles of the 2009 Rural Finance Policy are internationally recognized as constituting good practices and as being generally valid for financial-sector interventions. The principles were already applied in many of the projects reviewed in this ESR before the revised policy was introduced. This section addresses some of the issues relating to the Rural Finance Policy principles that have emerged from the review of the sample operations.

Rural finance policy principle 1: Support access to a variety of financial services, including savings, credit, remittances and insurance, recognizing that rural poor people require a wide range of financial services

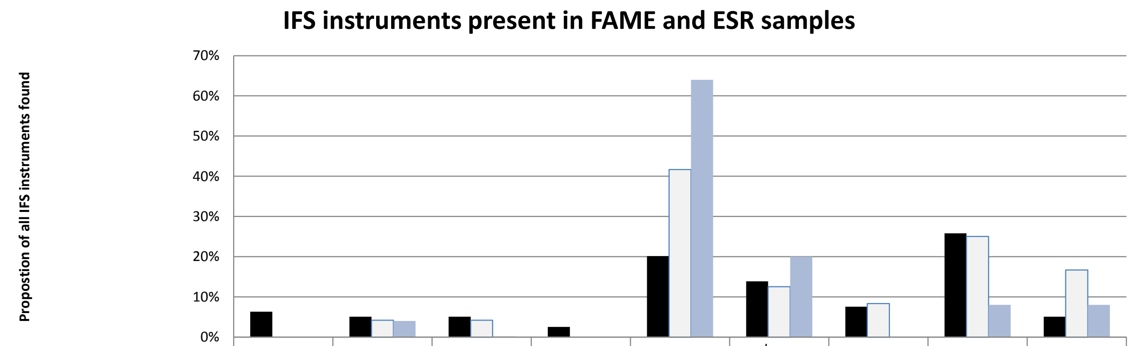
113. The mix of financial instruments in the portfolio shows that traditional support instruments are still widespread. This is particularly true for the older-generation projects reviewed by this ESR. Indeed, LGFs, LOCs and matching grants are overly represented in the mix. The choice of these instruments was not necessarily based on a sound analysis of the market demand, the potential to integrate non-financial support, or the local environment. Rather, other factors appear to drive the decision, such as demand from governments, assumptions on what beneficiaries may lack, pressure to reach out to a large number of beneficiaries in a short time, and limited knowledge of feasible alternatives. Among the financial instruments, the three forms mentioned above appear to offer "low-hanging fruit".

114. Generally, interventions in the financial sector should rely primarily on existing local funds; specific LOCs should be established only in highly specific circumstances. LOCs may still be required where local credit markets are constrained in terms of funding; however, in most countries – contrary to the situation a decade ago – this is no longer the case. In certain contexts, it may be more efficient and effective to provide a smaller number of larger loans in a carefully targeted manner, for example in value-chain arrangements, instead of reaching out to a large number of small borrowers. However, the secondary (spillover) effects would need to be carefully monitored.

115. The mapping of recent operations conducted by the former PTA team indicates a gradual widening of the range of financial instruments and services used since the introduction of the revised 2009 Rural Finance Policy. As of March 2018, the 159 IFS interventions approved since 2009 show a shift towards newer approaches and a focus on innovative financial services, such as digital finance (10) and insurance

(8). However, most of the 159 projects (i.e. 60 per cent) continued to focus on LOCs (32), LGFs (22) and matching grants (41).

Figure 2
Financial instruments used before and after the 2009 Rural Finance Policy*



	Digital Finance	Graduation	Insurance	Islamic finance	Line of credit	Loan Guarantee Funds	Market review	Matching grants	Remittances
FAME Mapping (159 projects)	6.3%	5.0%	5.0%	2.5%	20.1%	13.8%	7.5%	25.8%	5.0%
ESR CSPE sample (24 CSPE)	0.0%	4.2%	4.2%	0.0%	41.7%	12.5%	8.3%	25.0%	16.7%
ESR PPE sample (25 PPEs)	0.0%	4.0%	0.2%	0.0%	64.0%	20.0%	0.0%	8.0%	8.0%

** Note: In the FAME sample, Technical Assistance was listed as an IFS instrument, thus taking up the remaining share.*
Source: IOE evaluation samples, FAME IFS Mapping Database.

116. Figure 2 above compares the total of 159 operations approved after the 2009 Policy and mapped by the former PTA with the sample reviewed in this ESR (25 project evaluations and 24 CSPEs).[92] It is notable that the use of credit lines has been significantly reduced (from 42 per cent in the PPE sample to 20 per cent in the PTA sample). On the other hand, the use of other instruments did not significantly change between the "older"" sample of projects reviewed by the ESR and the recent operations covered by the PTA sample. Insurance was mentioned in a number of CSPEs; however, it was not represented in the PPE and PTA samples. Islamic finance and digital finance were absent from the review sample. To date, there has been little use of digital technology in IFAD's portfolio.

117. Despite the clear indication provided in the Rural Finance Policy, projects were generally found to lean towards traditional financial services, mainly savings and borrowing at the micro level. Thinking of rural finance as predominantly credit appears to be a generally widespread position.[93] New types of services that were promoted by IFAD through the revised Rural Finance Policy, such as leasing, insurance, warehouse receipts and VCF, were hardly used; when they were included in project design, they were often found to be less feasible than envisaged during implementation.[94] Within the IOE project sample, leasing was used in only one project (#47 Georgia), as was insurance (#4 Argentina). The recent country programme evaluations (CPEs), however, report more instances of new financial products being used: specifically, insurance in India (2016 CPE), Mozambique (2016 CSPE) and Peru (2017).

Rural Finance Policy principle 2: Promote a wide range of financial institutions, models and delivery channels, tailoring each intervention to the given location and target group.

118. IFAD's business model is driven by government demand for loans, as these generate returns and allow for reinvesting the funds while maintaining the capital (if well managed). In the earlier projects, as documented in CSPEs, governments

[92] It should be noted, however, that the three samples cover projects at different stages. The PPE sample refers to completed projects only, the majority designed before the 2009 rural finance policy. The CSPE sample covers completed and ongoing loan projects at different stages of implementation and grants. The FAME sample covers only projects designed after 2009.
[93] This is also notable in the knowledge documents that are published by other non-rural-finance thematic areas in IFAD.
[94] Financial products found in the project review sample: credit (24 projects); savings (14 projects); grants (8 projects).

were the main channel.[95] Meanwhile, the range of financial channels used for rural finance has broadened and includes apexes.[96] The transition to new types of financial services was often hindered by governments' unwillingness to invest significant shares of project funds (based on loans) in technical assistance, market studies or capacity-building. Furthermore, service providers for special products – such as leasing and insurance – that are able and willing to serve IFAD's target groups are difficult to find in-country, and may be even more difficult to find in rural areas.

119. A major challenge for rural finance projects was to identify FSPs that are interested in collaboration that were located in or close to their project regions and were willing to serve the target group identified for the intervention. IFAD projects were often engaged in remote rural areas where no (formal) FSPs, or only small and weak ones, such as SACCOs, were present. Notably, FSPs with a rural outreach, such as the rural banks in the Philippines or in Ghana, were often weaker and smaller institutions than their urban peers.

120. Recently, linking village savings and loans groups or other microfinance or microcredit groups with formal banks has become a common approach. Having good service providers in place, and linking them to a long-term structure, are identified as good practices.[97]

Rural Finance Policy principle 3: Support demand-driven and innovative approaches with the potential to expand the frontiers of rural finance.

121. **Demand-driven approaches.** The Rural Finance Policy clearly calls for the assessment of the demand for financial services, under the section titled "Guidance for micro-level interventions". In practice, the project concept and the government's level of interest ultimately steered this "demand". Demand studies were rarely conducted at design stage. In particular, projects using a multisectoral approach targeting certain groups and regions, followed the rationale for non-financial interventions, while financial services were used as supporting instruments to achieve the project objectives.

122. **Innovative approaches,** as presented in the following paragraphs, were introduced in the context of IFAD-supported programmes. Some have been highly successful (e.g. Ghana, India), while others did not materialize as planned (e.g. Moldova, Mozambique).[98] An innovative approach was for example graduation, an approach introduced to target the very poor specifically.[99]

123. The Ghana CPE (2010) reports innovations, such as the traditional Susu savings system,[100] group lending for medium, small and micro enterprises and money transfer services, including international money transfer services. #18 India successfully introduced new and improved financial products. The policy advocacy and action research component promoted the establishment of a forum to discuss key issues in microfinance, examine innovations, and compare achievements in India to state-of-the-art practices followed elsewhere.

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[95] For example, in India (2010 CPE), Mozambique (2016 CPE), Nepal (2012 CPE), Viet Nam (2010 CPE) and Yemen (2010 CPE).
[96] For example, in Bangladesh (2014) CPE and India (2015 CPE), and in #45 Cameroon, #04 Argentina, #18 India, #08 Dominican Republic and #01 Belize.
[97] Peru (2017 CSPE), Ghana (2012 CSPE), Niger (2009 CPE), Yemen (2012 CPE), Mozambique (2010 CPE), Mozambique (2016 CSPE), Argentina (2009 CPE), Viet Nam (2012 CPE) and Yemen (2012 CPE).
[98]. Sometimes, what was reported as "innovation" did not appear to be a great success or breakthrough. For example, in #25 Uruguay, the project evaluation reports that it established 36 small "rotating funds" and generated 14,000 small loans. It remains unclear if the model based on "local credit committees" and the "local credit analyst" are actually appropriate. The model is based on social control, which is lauded as an innovation. However, the model uses "cold" money" from IFAD and is expensive, with costs of 40 cents for every US$1 lent. Other weaknesses of the approach include the lack of a sustainability perspective, the provision of rudimentary credit services, a lack of deposit services, and credit recovery.
[99] Graduation was found in IFAD programmes in #04 Argentina and was also reported for Ecuador (2014 CPE) and Nepal (2014 CPE). In addition, see the Kenya case study (box 6 below).
[100] This involves collectors charging a small fee to visit individual businesses every day to collect savings over a whole month. The method was adopted by more than 15 per cent of rural banks.

124. Unsuccessful innovations introduced in Moldova (2014 CPE) include a deposit insurance scheme to promote savings mobilization in the savings and credit associations; this was never implemented, mainly because of insufficient project funding and problems in using the Consolidated Programme Implementation Unit and the participating financial institutions as brokers to create forward and backward linkages within the VC. In Mozambique (2017 CPE), several examples of innovations were introduced at design stage but were never implemented, such as equity support for MFIs, warehouse receipts and inventory credit.

125. Many of these innovations might have benefited from pilot testing or a more detailed foresight analysis prior to being scaled up, which were not done sufficiently. In terms of expanding the boundaries, attempts to introduce innovations across a country without involving other donors entails the risk of scattering IFAD's limited resources too thinly, in geographical terms.

126. Furthermore, there has been no critical review of the innovations (successful and failed) for the purpose of lesson-learning. An exception to this was the review of Ghana's experience with matching grants, which led to a Technical Note (2014). The document highlighted, among other things, the importance of establishing a balance between grant funds and loan funds in the financing package available to project clients, in order to avoid distortion.

Rural Finance Policy principle 4: In collaboration with private-sector partners, encourage market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources.

127. In the last decade, under the 2009 Policy, projects have shifted towards adopting market-based approaches. In the beginning, among the projects that were still designed under the 2000 Rural Finance Policy, certain "old-fashioned" approaches could be found, such as credit provided through project schemes or subsidized loans provided through government schemes. The shift from these unsustainable approaches towards privately driven approaches with sustainability in mind is clear in several projects, documents and expert fora, and is generally accepted as a principle and as constituting the state of the art within IFAD and its partners.

128. Low interest rates often signal to borrowers that "only" government money (i.e. "cold" money) is at stake, such that repayment rates, and therefore the sustainability of the fund, will suffer. In Yemen (CPE 2012), the cooperating agency for early projects, the Cooperative and Agriculture Credit Bank (CACB), offered borrowers subsidized interest rates ranging between 9 and 11 per cent. It was clear that such low rates would be unable to meet the costs of delivery. Furthermore, CACB was also losing money because of the low repayment rates of its loans. The total nominal amount of funds lost by CACB in three IFAD projects was US$1.87 million, or close to 47 per cent of the funds provided as loans to the Yemen Government. In #8 Ghana, in 2006, the Government set up the Microfinance and Small Loans Centre, a new institution under the Office of the President, to channel subsidized credit at 10 per cent (commercial rates were on average 24 per cent).

129. "Market-based approaches", however, were difficult to implement in certain submarkets, often due to distortions such as targeted cheap loans or grant funding from governments. IFAD project areas are generally characterized by low population densities, which entails higher costs for financial service provision for formal FSPs. Furthermore, market-based approaches, in which charging cost-covering interest rates for agricultural investments is a key element, are much more difficult to promote to policymakers and to implement in practice. In some instances, interest rates of 10 per cent per annum can be perceived as high by PMUs, government, project partners from the technical side and clients, although

the cost-covering interest rate would be 20 per cent or higher (including on the basis of the amount of the loan), despite effective administration by the FSP.[101]

130. Market-based approaches, above all, require a proper understanding of the market. In #47 Georgia, IFAD introduced agricultural leasing, which met limited interest among financial institutions at the time. There were formidable sources of competing interventions, such as rental subsidies on farm equipment through government centres or donor agencies' programmes, which also provided subsidies for the purchase or lease of machinery. A business case analysis at the project design stage would have brought these issues to the fore.

Rural Finance Policy principle 5: Develop and support long-term strategies focusing on sustainability and poverty outreach, given that rural finance institutions need to be competitive and cost-effective to reach scale and responsibly serve their clients.

131. **Sustainability**. Many projects have embedded this principle, especially those pertaining to the younger generation. Strengthening the longer-term viability and sustainability of financial service provision was an explicit aim of the majority of projects. Successful projects are, for example, the rural banks in Ghana, or the rural credit unions in China. In #8 Ghana, the ARB Apex Bank worked closely with several unprofitable rural banks and explored various strategies to catalyse upward movement towards profitability. One such strategy was the promotion of mergers of smaller banks operating within the same geographical zones; although this may appear reasonable to outside observers, the initiative was met by fierce resistance on the part of local bank owners.

132. Strategies that support the sustainability of FSPs include: establishing apex organizations that promote mergers of smaller FSPs operating within the same geographical zones; supporting MFIs in keeping their operational and transaction costs low and thus continue to be able to carry out self-sustaining operations; ensuring that financial institutions have the internal capacity to design and roll out new products or invest while building their capacities; and having an exit strategy in place for technical support to MFIs after the project.

133. The weak sustainability of FSPs was noted in a number of cases, for example #01 Belize, #45 Cameroon and #46 Lesotho. Focusing on very small loan sizes, or a certain industry, sector (tea farmers, cocoa production) or target group (women, youth, smallholders) can create a host of challenges for an FSP. For example, if the credit portfolio is overly concentrated in that sector, portfolio risks may arise if prices fall. As per the IFAD Decision Tools (2009), portfolio diversification is key to the sustainability of an FSP; however, it may be difficult to achieve in practice. A narrow definition of the target group (e.g. small farmers with up to 2 hectares of land) may exclude potential clients who do not fulfil those criteria and thus may not be eligible to access, for example, matching grants or certain bank loans. Prioritizing the sustainability of the FSP over the focus on poor and excluded groups remains a difficult choice for projects. Defining a target group narrowly[102] may therefore compromise the goal of financial sustainability for an FSP.

134. However, achieving sustainable rural finance institutions requires interventions at all levels of the sector (macro, meso and micro) and considerable investments in technical support. This may be too ambitious, especially for mixed projects with IFS components only. For these reasons, certain IFS interventions were unable to achieve the full sustainability of FSPs or apex organizations, either because of the limited investments, scope of interventions or project duration, or because of the low priority assigned to reaching very poor or hard-to-reach clients.

135. **Poverty outreach**. Targeting a larger number of very poor people over a longer period of time may prevent smaller FSPs from becoming financially self-sustaining.

[101] For example because of high refinancing costs, inflation and administration costs in remote areas.
[102] See IFAD, CLE 2007.

Subsidized entities, such as state banks, on the other hand, may be able to absorb some of the costs associated with serving hard-to-reach segments of the population, as shown below (see chapter IV D). In principle, other types of FSP have the potential to both address the poorer segments of the population and to operate sustainably; however, they often focus on other clients, such as urban consumers, the better-off among the poor, the productive poor, the middle-income segment or formal micro, small and medium enterprises (MSMEs). This is the case with larger cooperative banks or formalized MFIs.

136. Wholesale funds are often used to support inclusive financial-sector institutions within a broader poverty reduction approach. In fact, providing wholesale funds to inclusive financial institutions serving the rural poor has often been an effective approach. However, use of this type of funds would also raise issues of sustainability. They usually cannot provide the equity capital that most inclusive financial institutions would require for longer-term sustainability and growth; instead, they would provide long-term debt capital at low interest rates. In addition, decision-making processes are often slow or cumbersome, and may have too many or too few restrictions to encourage the type of financial discipline that contributes to sustainable financial institutions.[103]

137. In practice, it is often difficult to strike a balance between focusing on the very poorest and hard-to-reach people and bearing the sustainability of the financial services in mind. Therefore, for regions where low population density and weak infrastructure make it even more challenging to provide sustainable financial services, these factors must be addressed clearly from the outset. A simple approach to IFS, such as providing community-based financial services, may make more sense in such situations, because it is more likely to be sustained after project exit.

Box 7
Sustainable financial services for the poorest? Considerations for the World Bank

The Independent Evaluation Group of the World Bank (IEG), in its recent evaluation of IFS at the World Bank, discussed a broader range of options for how to "make outreach to low-income and rural population commercial viable". The IEG calls for more "effective credit allocation" instead of a "democratization of credit" (p. 17). This is also in response to concerns over high levels of indebtedness in some thriving microfinance markets, such as Tamil Nadu. Digital finance is seen as a promising approach for reducing the cost of delivery and overcoming delivery barriers or distances and offices. This may also involve returning to a consideration of interest rate subsidies "when they are transparent, targeted and capped, explicitly budgeted, fiscally sustainable, equitably distributed and economically justified" (p. 20). Last, the WBG-IEG also recognizes that facilitating access to savings products on a broad scale seems to be more desirable, to ensure that the poor will benefit from financial sector interventions.

Source: World Bank IEG, 2015.

Rural Finance Policy principle 6: Participate in policy dialogues that promote an enabling environment for rural finance, recognizing the role of governments in promoting a conducive environment for pro-poor rural finance.

138. An "**enabling environment**" for rural finance generally comprises the three dimensions of policy, regulation and supervision. In terms of policy, the IFAD Principles of policy engagement for IFAD-supported rural finance projects[104] provide an excellent framework. These principles call for engagement aligned with government strategies, and for efforts to "design projects with a long-term approach to building financial systems to avoid any kind of market distortion through subsidized lines of credit, generous matching grants to fix externalities, confusion of short-term with medium-term financing issues, additional risks for

[103] Findings drawn from the ESR on Smallholder Access to Markets (2016).
[104] IFAD, Scaling-up Note 2015.

FSPs through injections of ‘cold’ money (refinancing sources such as external loans or grants)”.

139. Providing support to policy interventions is challenging. For example, “pro-poor rural finance” may be among the policy goals of the government; however, the agricultural ministry’s proposed method to achieve this may not be aligned with sound criteria for financial sector development. Conflicting strategies pertaining to agricultural development or rural development, and financial sector development, are a common challenge. In other cases, where there is agreement in principle, practical conditions are not fulfilled. For example, expertise in the PMUs may be insufficient and external expertise too costly, policy goals may conflict, etc. Even when there is wider agreement among policymakers on the state-of-the art approaches to financial inclusion, such as graduation or digital finance, the rural realities, where weak Internet or mobile connections often prevail, may be a hindering factor.

140. Consequently, IFAD has been able to make a contribution to pro-poor rural finance policy development in only a small number of cases. #8 Ghana was credited with stimulating debate on a national Microfinance Forum, which led to the preparation of a Microfinance Policy in 2006. The India 2010 CPE found policy contribution to be particularly important in promoting self-help groups and microfinance as vehicles for reducing rural poverty. The National Microfinance Support Programme supported by IFAD provided a platform for engagement with the Reserve Bank of India when it began lending to commercial banks for onlending to MFIs. Another positive case is Mozambique (CSPE 2010), where IFAD supported the establishment of a Rural Finance Unit within the National Directorate for the Promotion of Rural Development in the Ministry of State Administration. The Rural Finance Unit played a key role in the drafting and approval of the 2011 National Rural Finance Strategy, and later, in the preparation of the 2016-2022 National Strategy for Financial Inclusion.

141. The list of countries where evaluations highlighted missed opportunities for IFAD to engage with Rural Finance Policy issues is far longer. #42 Egypt noted that IFAD had not participated as intended in the national policy dialogue on rural finance in Egypt and had not addressed the policy obstacles to sustainable rural finance. In #13 Moldova, the programme did not have a defined approach to leveraging programme experiences in policy analysis and dialogue. Very limited use was made of the Rural Business Development Programme experience in financial sector analysis and policy dialogue and reform, which prevented the dissemination of IFAD’s experience in supporting longer-term loans and stabilizing the rural financial system.

142. The Yemen CPE (2010) commented that in relation to credit delivery and institutional reform, IFAD’s association with CACB has done little to influence CACB’s policies or to place it in a position to leverage government policy regarding microfinance in Yemen. The project modality did not provide IFAD with an effective mechanism for influencing policy change in this sector.[105]

143. Engagement in regulation and supervision for the financial sector has been less successful. In the two cases (#19 China, #46 Lesotho) where IFAD had planned to become involved, the respective components had to be cancelled. Despite the challenges, there has been some success in terms of reforming the postal bank in Lesotho, as shown in the case study in box 8.

[105] Furthermore, IFAD’s canvassing to restructure the CACB was found to be at odds with its own agenda of using the CACB as its main implementing partner in the sector. IFAD expected that restructuring would somehow lead to CACB being more responsible for providing services in rural areas, whereas the CACB’s plans for restructuring were driven mainly by the need to make its operations more commercially viable.

Box 8
Lesotho case study: rural financial intermediation

In its Poverty Reduction Strategy, the Government of Lesotho also identified improved access to financial services as one of the priorities for poverty alleviation. The Central Bank of Lesotho noted the need to develop the policy, legal and regulatory framework for microfinance and rural financial institutions, in order to supervise and regulate non-banking institutions that carry out banking functions. A legislation gap was identified in the field of cooperatives, where reporting was not compulsory and low performance and defaulters were common issues among these financial institutions.

The programme objective and main design thrusts were broadly relevant and covered the key areas for delivering support to rural finance and microfinance in Lesotho. However, the programme was overambitious, as it did not sufficiently consider the complexities of establishing an appropriate policy, regulatory and supervisory framework in the programme context. The low capacity of governmental implementing agencies and the absence of financial sector foundations in Lesotho, the lack of sufficient member-based financial institution (MBFI) activity for development, the strongly rural-led approach and the lack of a functioning national inclusive finance association were the reasons for the programme's underperformance.

However, against major delays and obstacles, the project succeeded in building two solid institutional pillars of inclusive financial intermediation with rural outreach: private-sector MBFIs under the guidance of NGOs, and a government-owned postal bank, Lesotho Post Bank. The Lesotho Post Bank, which was a loss-making postal savings bank at project inception, became a self-reliant and sustainable financial intermediary, with expanding rural savings and credit outreach. In 2014, only 10 years after its operational take-off in 2005 and seven years after the start of the Rural Financial Intermediation Programme (RUFIP), the Lesotho Post Bank attained profitability. In 2014 and during the two years after completion, 2015-2016, the Lesotho Post Bank substantially increased its savings and credit outreach to rural and urban areas.

Source*:* ESR case study based on #46 Lesotho.

144. In Ethiopia (2015 CPE), although the COSOP (2008) committed to addressing gaps within the policy and regulatory framework, engagement with policymakers only occurred in the context of IFAD supervisions and, although issues were often highlighted as requiring resolution, this did not result in any conclusive action by the Government of Ethiopia to resolve, in particular, the critical issue of a missing framework for sustainable longer-term financing of MFIs, such as the establishment of an apex institution.

145. An important lesson is that where IFAD can capitalize on strong partners, projects are more likely to have institutional, sectoral and policy impacts. Successful partnerships in rural finance include, for example, those with the Irish Union League (Belize and Ethiopia), the World Council of Credit Unions (Kenya), international NGOs (Lesotho), World Bank (Ethiopia, Georgia and Ghana) and the UK Department for International Development [106] (India).

B. Relevance of IFS interventions

Alignment with national policies

146. Within the sample reviewed, the majority of projects (13) responded to overall opportunities and challenges within the national policy frameworks; however, they did not necessarily refer to specific financial sector policies. For seven projects, the evaluations only state positive alignment with governments' national development policies; they do not discuss how the alignment with national sector policies and strategic frameworks was achieved. For example, in #08 Ghana and the related national strategies, rural financial institutions were seen as primary vehicles in providing financial services to the rural poor, in order to start or expand on- and/or off-farm enterprise activities.

[106] The United Kingdom's Department for International Development.

147. Insufficient alignment with existing framework conditions was noted in several of the earlier CPEs. For example, the Viet Nam CPE (2010) commented that the projects do not take on-the-ground realities into account, in terms of demand, institutional capacity and the prevailing regulatory framework, particularly with regard to group lending and the legal status of savings and credit groups. For Argentina, CPE (2009) noted that the Government of Argentina did not buy into IFAD's approach to link up family farmers to commercial banking.[107]

148. **Financial inclusion strategies.** National financial inclusion strategies have emerged relatively recently, as a platform to align initiatives within the financial sector (see box 9 below). Within the review sample, references to financial inclusion strategies are made only in more recent CPEs. For example, the 2017 CSPE for Mozambique referred to the Strategy for Financial Inclusion (2016-2022), which provides policy and regulatory measures, as well as priority actions across all levels and subsectors, for building a financially inclusive society in Mozambique. The 2014 CPE for the United Republic of Tanzania referred to the National Financial Inclusion Framework of Tanzania (2014-2016), which, among other things, recognizes the potential of mobile technology to deliver financial services in the remotest parts of the country.

Box 9
National financial inclusion strategies (NFISs)

A national financial inclusion strategy (NFIS) is a comprehensive public document that presents a strategy developed at national level to systematically increase the level of financial inclusion. Typically, a NFIS will include an analysis of the current status of, and constraints on, financial inclusion in a country, a measurable financial inclusion goal, how a country proposes to reach this goal and by when, and how it would measure the progress and achievements of the NFIS. The Maya Declaration of 2011 contributed significantly to this heightened interest in national strategies. Of the 57 institutions that had made commitments under the Maya Declaration by the end of September 2015, 35 have committed to formulating and implementing an NFIS and of these 35 countries, 16 have already formulated one.

In 2012, The World Bank launched its Financial Inclusion Support Framework to provide assistance to countries to formulate and implement national strategies systematically. A recent review of the current state of Practice on NFIS (Alliance for Financial Inclusion 2015) concludes that better knowledge of national financial inclusion strategies has contributed to the adoption of good practices across countries.

A NFIS also comes with an implementation structure such as a Coordination Committee and Secretariat. Stakeholder-based development and implementation of a NFIS is an important indicator for government and policy support for financial inclusion. According to the 2018 Global Microscope the strategies in Colombia and Peru stand out because they are backed by commissions with members from a number of government entities, as well as specific inclusion goals. Peru's strategy includes a goal to provide financial services coverage in all districts by 2021. India has yet to issue a financial inclusion strategy, although the country is following a coordinated, three-level approach and publication of a strategy is expected during 2018–2019.

Source: National financial inclusion strategies; Alliance for Financial Inclusion, *Current state of practice* (2015).

Enabling policy and institutional framework

149. **Microfinance-sector-enabling frameworks.** The legal and institutional frameworks regulating the growth of microfinance date back some time and were therefore referred to in evaluations, for example #01 Belize, #18 India and #22 Georgia. The introduction of microfinance regulation usually aimed to foster organized growth in the sector and set clear rules for MFIs. For example, in #01 Belize, the Government removed the ceiling for interest rates and placed credit

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[107] For this reason, the CPE found that although the creation of rural financial institution has been a key objective of IFAD since 1984 and all IFAD projects in Argentina have had an important financial services component, this has been the least effective component in all IFAD interventions in the country, and therefore did not leave any institutional impact in the rural financial sector.

unions under the supervision of the Belize Central Bank, the latter encouraging greater financial discipline and transparency for the credit unions. The legal and institutional framework for microfinance has been a critical contextual factor for many IFAD-supported operations. In Egypt (2016 CSPE), Presidential Decree no. 141 established microfinance as a non-banking financial instrument in 2014 and required operations to adapt to the new regulations. Microfinance could only be implemented by companies licensed under the law, as well as by non-governmental societies and organizations having purposes (as per their articles of association) that include providing finance. Regulations set a limit on the amount that can be lent for economic, service-oriented or commercial purposes, and sets responsibilities, requirements and limits for companies or NGOs engaged in microfinance.[108]

150. **Changing framework conditions** had a fundamental impact on project performance in a number of cases. In Latin America, the severe economic recession (1998–1999) negatively affected the performance of the rural finance institutions. In Argentina (CPE, #04), hyperinflation, together with low interest rates, nourished a culture of low loan repayments. Declining interest rates in financial markets also undermined the competitiveness of wholesale lending in the Philippines (#41).

151. In other cases, changes in the political framework had affected project performance. For example, in #47 Georgia, project performance was negatively impacted by shifting political priorities and frequent changes in the implementation arrangements, which created uncertainty and delays and required amendments to the financing agreement. In Egypt (CSPE), the new legal requirements for community development associations significantly delayed the micro lending component.

152. In #46 Lesotho, the opposite was the case. The uptake of legislative reforms was slower than expected and the limited financial linkages between micro- and meso-level institutions continued to hamper project performance.

153. Flexibility in responding to changing framework conditions was therefore critical. For example, in #18 India, IFAD carefully avoided a rigid approach to microfinance and supported both the self-help group/commercial bank linkage and the microfinance institution model. In #19 China, IFAD showed flexibility in adjusting its assistance and financial allocation to cope with the changing environment, given the nationwide reform process of the rural finance system that contributed to the positive assessment.[109]

Box 10
Change of framework conditions brought about by the microfinance crisis in India

While the microfinance sector was growing, there was limited focus on client protection and effective implementation of MFIs' codes of conduct, and regulatory and supervisory systems were not fully developed. This led to "overheating", particularly in the State of Andhra Pradesh, and MFIs were alleged to have been involved in multiple lending, charging high rates of interest and engaging in unethical loan recovery practices. Around the same time, one of the largest for-profit MFIs, Microfinance Limited (later renamed Bharat Financial Inclusion Ltd., India), mobilized funds from the market through the first-of-its-kind initial public offering, which was considered highly successful.

The crisis resulted in the drying-up of loan funds for MFIs from the formal financial institutions, including the Small Industries Development Bank of India (SIDBI). This led to a nearly 16 per cent reduction in client outreach and a 3 per cent reduction in loan outstanding; without the crisis, there could have been a 15 per cent to 20 per cent

[108] Microfinance falls under the jurisdiction of the Egyptian Financial Supervisory Authority (EFSA), which was created in 2009.
[109] During the Mid-Term Review, the Fund addressed the lack of appropriate institutional arrangements to implement a policy reform project by reallocating resources to more practical components, such as LOCs, and guiding the development of innovative and pro-poor financial products.

increase, on the basis of the trends prevailing in previous years.

Only in 2009, towards the end of the project, did SIDBI realize the importance of following a "client-centric", approach, as there were clear indications of client protection having been neglected by the MFIs. The lack of client protection in the sector during those years was among the reasons leading to the microfinance crisis in 2010 (see annex III). In fact, the first microfinance crisis occurred in 2005, when 52 MFI branches in one district of Andhra Pradesh were closed down by the district administration, citing allegations of certain unfair practices by MFIs, such as multiple lending and coercive loan recovery practices. Although all sector players, including the SIDBI Foundation for Micro Credit, were involved in managing the crisis, the root problems were not addressed.

Source*:* PPE #18 India.

Demand-orientation

154. **Demand for financial services and absorptive capacity of beneficiaries**. The lack of a realistic assessment of beneficiaries' capacity and demand for financial services has often been named as a factor limiting project effectiveness. For example, in #42 Egypt, the duration of the loans did not match the poor people's capabilities. In #13 Moldova, people were reluctant to deposit long-term savings with the bank from which they borrowed. In #04 Argentina, the project did not address the issues of savings, although savings accounts with commercial banks were too expensive for the poorest people. In Ethiopia (CSPE), the onlending credit market was underestimated, and the capacity of partner institutions (the Development Bank of Ethiopia) to deliver credit was inadequate. A good practice was found in #01 Belize, where the project carried out a study after Hurricane Iris struck the project area in 2001. The study confirmed that there was still credit demand despite the disaster. It also reported that borrowers in the project area preferred individual loans to group loans.

155. In #18 India, a shortcoming of the design was the fairly limited approach regarding the needs of the target group in the design phase. Even though the poor were included in the targeting, none of the project components was specifically designed to examine the needs of the poor and to ascertain how to reach out to them effectively through MFIs. All components were focused on institutional changes or policy reforms of the microfinance sector.

156. **Demand for innovative products and services** was generally insufficiently assessed. In #47 Georgia, agricultural leasing as a financial-sector instrument was relatively little known at the time of design. The legal framework for agricultural leasing in Georgia was found to be adequate but not perfect, particularly due to the concerns on the value-added tax in leasing contracts of both the leasing companies and MFIs (working paper 1 in the design report, paragraph 39). The design overestimated the demand on the part of commercial leasing companies and MFIs, and out of the three Georgian leasing companies that had indicated their interest during design, only one actually participated; none of the MFIs joined the project. In Moldova (2013 CPE), the project intended to introduce equity for rural investments and had hoped that business service providers would be capable of acting as the link between external investment capital and rural entrepreneurs. However, this proved to be excessively ambitious at the time; there was no concrete interest for equity participation on either the demand or the supply side.

Box 11
Moldova case study: equity fund

IFAD has played a pivotal role in developing the rural finance sector in Moldova. Lending is channelled through the Credit Line Directorate of the Ministry of Finance, which onlends to local partners. Attempts to introduce an equity fund were abandoned and the funds were reallocated to the credit lines. With this approach, IFAD provided subsidized financing, which in the long run creates overdependencies and market distortions. IFAD's intervention, if limited only to providing liquidity, cannot guarantee sustainability. The technical support provided has been limited to awareness-raising. There is potential for IFAD to become more proactive in policy engagement and facilitate a long-term strategy for financial sector development.

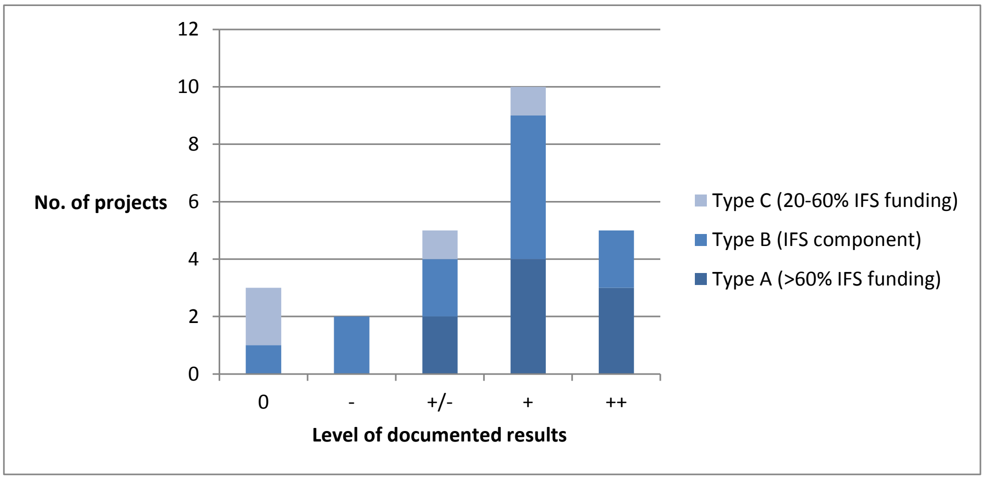
Source*:* ESR case study on Moldova, based on the Moldova PPE (2019).

C. Effectiveness of IFS interventions

157. Results, in terms of documented rural finance outputs and outcomes, were found in five projects.[110] Outcomes included linkages between formal and informal microfinance institutions, enhanced financial portfolio and service provision, improved loan recovery and reduced operational costs for FSPs. Another 10 projects recorded positive outputs, such as new services and products offered, increased membership in member-governed FSPs, new business services offered to enterprises receiving loans, and FSP staff trained (See annex V, figures 4 onwards for a detailed representation of the results). The overall project achievement correlates positively with the amount of rural finance funding and the financial instruments and FSPs chosen, as discussed in the following paragraphs.

158. Figure 3 illustrates the extent to which IFS results were documented in the review sample (25 projects). It shows that positive results occurred for all type A projects (stand-alone IFS projects with more than 60 per cent of IFS funding). The results were mixed for type B projects (with an IFS component).

Figure 3
Level of results* documented for different types of projects



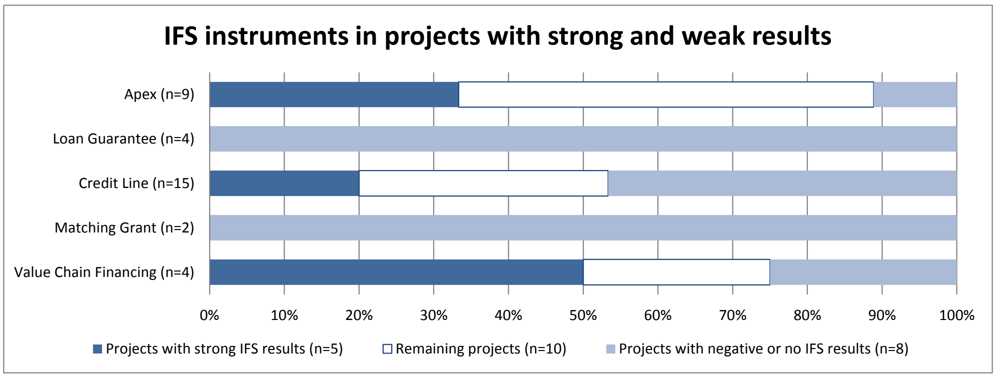
* Legend: 0 = no reported results; + = IFS outputs reported; ++ = IFS outputs and outcomes reported; - = negative IFS results reported; -/+ = mixed IFS results reported.
Source*:* ESR PPE sample review.

Effectiveness of financial instruments

159. Meso-level funds managed by apex organizations correlate positively with project effectiveness. On the other hand, LGFs and matching grants correlated with low project achievements (see annex VI). Figure 4 compares the use of financial instruments between projects with strong IFS results (++) and those with negative or no IFS results (- or 0).

[110] In #8 Ghana, #14 Armenia, #18 India, #25 Uruguay and #41 Philippines.

Figure 4
Presence of financial instruments in projects with strong or weak results



Source*:* ESR PPE sample analysis.

160. **Lines of credit.** The most common instrument were LOCs, found in 15 (out of 23) projects. However, the effectiveness of credit lines was mixed. Results were positive in three projects that used credit lines; however, they were poor or negative in seven projects. Sixty-seven per cent of the projects with low effectiveness ratings (2 or 3) had used a line of credit as a financial instrument.

161. LOCs worked well with clear institutional responsibilities and adequate institutional capacities in place. For example, the LOC was handled effectively by IFAD's main partner, the ministry of finance, in two projects in China (#19, #6) and in Moldova (see the case study, box 11 above). In the less effective projects, managing multiple LOCs was often time-consuming and led to implementation delays, as for example in Argentina (CPE) and #01 Belize.

162. **Apex institutions** usually provide funding to FSPs. They may also provide technical assistance to strengthen the capacity of the FSPs, and, in some cases, their client base.[111] Apexes or meso-level funds became an interesting entry point for IFAD support in Egypt and Yemen, where the commercial banking sector was still underdeveloped or underrepresented in rural areas. In Yemen (2010 CPE working paper), the Social Fund for Development was established in 1997 as one of the measures to cushion the effects of the government's reform programs on vulnerable groups, especially the poor. The Social Fund for Development has supported the establishment of 12 MFIs in both rural and urban areas through the support of various donor agencies.[112]

163. Apex institutions were present in 9 (out of 23) projects, for example #14 Armenia, #18 India, and #41 Philippines. The choice of an existing apex institution was an important factor of success, for example in #08 Ghana – where working through the apex bodies reduced recruiting time and ensured that large groups had access to training – as well as in #18 India and #40 Bangladesh.

164. Meso-level funds without links to existing institutions presented serious challenges, for example in #01 Belize, #04 Argentina, #09 Dominican Republic and #45 Cameroon. Setting up a new apex fund usually required too much time for it to become effective during the project's life, for example in #01 Belize and #45 Cameroon. Importantly, the project must have a clear exit strategy for the final use of the funds to be circulated in the sector beyond project duration.

165. **Loan guarantee funds.** LGFs are set up to eliminate information asymmetries and encourage banks to lend to MSMEs. The usual weakness affecting LGFs is the lack of collateral and credit history. Setting up LGFs – also called credit guarantee

[111] The apex-function "funding", "wholesale-credit" or "refinancing" can be implemented by a Commercial Bank, a State Bank, a private or government or mixed fund; a Central Bank Scheme, the Ministry of Finance or the Ministry of Agriculture.
[112] In Egypt, a similar fund was established and became implementing partner in later projects (Upper Egypt Rural Development Project – UERDP, Promotion of Rural Incomes through Market Enhancement project – PRIME).

schemes – requires a high level of technical know-how.[113] The sustainability of LGFs is a major challenge, as it will depend on a sound system, comprehensive funding and a long-term perspective; this require a cautious approach during the design stage, for example by choosing simple guarantee systems in the beginning.[114] Key factors for long-term success are regulation and supervision, governance and management, and risk management.[115] Furthermore, as the Asian Development Bank also notes, an LGF in a difficult business environment will have minimal lasting impact without reforms.[116]

166. LGFs were found in 4 (out of 23) projects; only one project has effectively implemented a guarantee fund (#18 India, managed by SIDBI). Notably, IFAD had planned guarantee funds in countries where it has neither the technical capacity nor the requisite partnerships on the ground to deliver strong technical support (e.g. Lesotho, Dominican Republic, Argentina and Moldova). In Moldova, the guarantee fund has yet to be set up (see case study, box 11). In Kenya (see case study, box 6), massive technical assistance was required to initiate such a fund.

167. **Matching grants.** A matching grant is a one-off, non-reimbursable transfer to project beneficiaries. As one-off transfers, matching grants differ from permanent public transfers, such as subsidies for inputs and services (e.g. fertilizer or interest rate subsidies) or safety nets (e.g. cash transfers, food for work).[117] In principle, the matching grant is intended to allow poor smallholders and small businesses to slowly become creditworthy without resorting to subsidized interest rates, which distort the market for credit.

168. Although initially confined to investments with clear public good characteristics, their use in IFAD has increased.[118] Matching grants finance a broad array of assets and productivity-enhancing technologies for groups, companies and individuals, directly benefiting the private sector with clear private goods characteristics. Despite their appeal as a relatively simple instrument to address access to finance in the short run, they can distort and crowd out private and public investments.[119]

169. Very few project designs took matching grants as a one-off solution. Rather than designing or implementing them with sufficient diligence, they often sought to achieve impact at once, without paying attention to sustainability. The justification for matching grants was patchy at the best, meaning that they were provided to finance parts of the investment. The call to "avoid distortions" may not always be understood by the PMU, or the government counterparts, with its full implications. Therefore, subsidized interest rates or matching grants seem to be adopted by IFS projects because of pressure to disburse and generate sources of funding for investments, as a key input to facilitate the productive parts of the project.

170. Within the review sample, two projects used matching grants (#1 Belize, #33 Albania). For #33 Albania, the PPE concluded that the matching grant and lending subcomponents were not poverty-focused, and there has been little evidence of replication. The presence of matching grants in CPEs is much more common.

171. Good practices relating to matching grants have been reported from Ghana.[120] IFAD-supported interventions have been relying on matching grants, and rural

[113] Organisation for Economic Cooperation and Development (OECD), *Facilitating Access to Finance, Discussion Paper on Credit Guarantee Schemes* (Paris: OECD, 2010).
[114] Rauno Zander, Calvin Miller and Nomathemba Mhlanga, *Credit Guarantee Systems for Agriculture and Rural Enterprise Development* (Rome: FAO, 2013).
[115] Asian Development Bank (ADB), *Credit Guarantees, Challenging their role in improving access to Finance in the Pacific Region* (Manila: ADB, 2016).
[116] According to the OECD, as of 2003, there were over 2,250 such schemes in almost 100 countries, OECD, Evaluation Publicly Supported Credit Guarantee Programmes for SMEs (2017). OECD suggests that rigorous evaluations of loan guarantee funds should be undertaken regularly and has developed a respective manual.
[117] IFAD and FAO, 2012, p. 8.
[118] From 8 per cent in the PPE sample to 26 per cent in the FAME sample (see figure 2 above).
[119] IFAD website: http://www.ifad.org.
[120] Not included in the PPA review sample.

finance components were part of four projects[121] geared toward business and market development. In each, matching grants were to be used to help finance investment costs in addition to an equity contribution by end clients and a bank loan, based on an acceptable business plan. The innovation regarding matching grants in Ghana consisted in the link with rural banks, which funded 50 to 60 per cent of the investments, while the matching grant covered 30 to 40 per cent; 10 per cent of the funds came from equity. This also allowed many relatively poor people to expand their business.[122]

172. **Value chain financing (VCF)** in different forms was implemented in #4 Argentina, #9 Dominican Republic, #14 Armenia and #20 Mongolia. In addition, some projects provided "value chain development" without explicitly mentioning VCF. These are #40 Bangladesh and #41 Philippines, which worked on VCs, and on IFS or microfinance, respectively.

173. These cases documented efforts to explicitly link VC development and finance, although they are rarely called VCF in the project documents. No evidence was found of sophisticated and systematic application or development of "value chain financing"; rather, a relatively light-touch approach appeared to be adopted, linking financial and non-financial support. In #4 Argentina, VCF for groups generated 528 loans. A problem was that groups were created for the sole purpose of obtaining credit, and later collapsed. Groups were constituted to also have a loan guarantee clause, although this was never used in the project. In #9 Dominican Republic (CE 2011), the performance of the credit component was relatively weak. The termination report (PRODERNEA 2008) reports a delinquency rate of 18 per cent and a portfolio-at-risk rate of 50 per cent.[123]

174. In other cases, the practice was to have a microfinance or rural finance component or activity stream on the one hand, and a VC development component on the other. In #40 Bangladesh, one component is microfinance services and another is value-chain development. The approach was to link VC actors to the MFIs, and to some extent, sensitize the apex Palli Karma-Sahayak Foundation on VC development. In #41 Philippines, VCs are being promoted by the non-financial component, and the microfinance component is implementing financing of the VC.

175. The establishment of the rural finance facility in#14 Armenia pursues a more systematic, and more successful, approach. According to the PPE, it increased the appetite among financial institutions to become involved in rural banking operations and to integrate rural producers and enterprises into the mainstream banking system. The facility also provided a platform for other donors to invest in the rural sector in Armenia.[124] The PPE concluded that the establishment of the rural finance facility clearly improved the access of rural small and medium entrepreneurs to short-, medium- and longer-term investment loans.[125] A shortcoming was that technical assistance to rural entrepreneurs was not offered as planned; in addition, the project did not sufficiently disseminate the information about available services and results to potential clients.

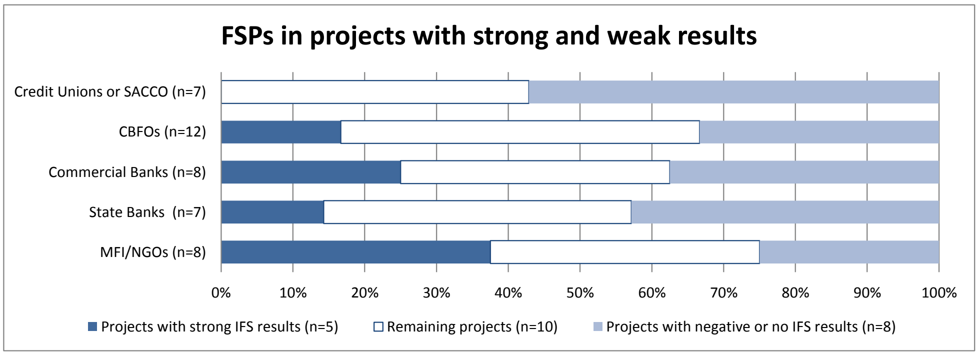
Effectiveness of FSPs

176. The most common FSPs within the project samples are CBFOs (present in 12 projects). Less common, as FSPs, were credit unions or SACCOs, MFIs, NGOs,

[121] Rural Enterprises Project Phase II – REP-II, Root and Tuber Improvement and marketing Programme – RTIMP, Northern Rural Growth Programme – NRGP, and Rural and Agricultural Finance Programme – RAFIP.
[122] Frank Hollinger and Michael Marx, Matching Grants: Technical Note (Rome: IFAD, 2014).
[123] In the Province of Chaco, as of 30 June 2008, delinquencies reached 27 per cent and 80 per cent of the capital in the loan portfolio was at risk
[124] The rural finance facility attracted additional funding from the Millennium Challenge Corporation (MCA), the World Bank and the Government of Armenia, tripling the original IFAD loan amount. The banks increased their portfolios in rural activities, while some opened several new branches in the targeted areas.
[125] The loans offered through the rural finance facility scheme were longer in duration (up to seven years) and larger in size (up to US$150,000). According to the PPE, in providing loans, the rural finance facility allowed financial institutions adequate discretion concerning collateral and interest rate decisions, so as not to distort the basic rules of the commercial lending market.

commercial banks and state banks. Only one project used a leasing company. Insurance companies were not reported. Project achievements correlate positively with the use of MFIs or NGOs; and correlate negatively with the use of state banks and credit unions or SACCOs. Figure 5 compares the presence of FSPs in projects with strong IFS results (++) and projects with negative or no IFS results.

Figure 5
Presence of FSPs in more effective and less effective projects



Source*:* ESR PPE sample analysis.

177. **State banks**. State banks were often default partners for IFAD despite their institutional inefficiencies. State banks were selected as partners mainly because of their ability to outreach to rural areas (i.e. India, Ghana, Egypt and Viet Nam). In some cases, IFAD had no choice but to partner with the government banks. For example, in Yemen (2010 CPE), CACB was IFAD's main partner in five of its eight projects with a rural finance component, although it did not have an effective mechanism for disbursing credit in a cost-effective manner to rural areas; in addition, whenever it has disbursed rural credit, it has not been able to recover its outstanding loans. In Egypt (2016 CPE), the Principal Bank for Development and Agriculture Credit was the only option with any proximity to the beneficiaries, but its outreach to smallholders was limited, and its financial and social performance was poor. This was partly because of political pressure on preferential interest rates and loan waivers, and partly because its sole focus was on agricultural loans rather than rural finance in the wider sense.

178. The partnerships with state banks encountered problems because of conflicting procedures and interests.[126] The collateral requirements imposed by state banks were often rigid, and in some cases, prevented IFAD's target groups from benefitting. For example, in Egypt (2016 CSP), the collateral requirements of the Principal Bank for Development and Agriculture Credit were a limiting factor, and its refusal to onlend to community development associations because of banking regulations limited outreach. The performance of the Principal Bank for Development and Agriculture Credit was characterized by onerous requirements, delays, and poor follow-up on repayment. The Vietnam CPE (2010) reported that the programme has not addressed the problem of the State Bank requiring full collateral cover for its loans, including loans funded through the IFAD-supported programme. In Yemen (2010 CPE), poor households were said to be reluctant to apply for CACB credit due to their inability to meet the collateral requirements, high transaction costs, lengthy approval procedures and inherent reluctance to deal with any institution that is perceived to charge "interest rates". Women had little access to CACB credit because of the low ceiling for collateral-free loans and the requirement of land collateral for larger loans. Women could not fulfil this requirement without the approval of their husbands or other male household members. The same applied to sharecroppers, who could qualify for a loan only if the landowner was willing to offer his land as collateral.

[126] Issues reported for Ghana (2010 CPE) and #24 Sudan.

179. IFAD support was sometimes used to subsidize poorly performing state banks, for example in Zambia (2013 CPE), where the evaluation found that support was largely used to rehabilitate a government-owned non-bank financial institution, the services of which focused on its clientele and not necessarily on the rural poor. In Yemen (2010 CPE), IFAD helped to build several CACB branches where none existed before; however, these were not located near the commercial centres and, as such, were of limited utility.

180. **Commercial banks.** Commercial banks participated as retail FSPs in eight projects; however, their involvement was successful only in #19 China and #13 Moldova. In #01 Belize, #08 Ghana and #22 Georgia, commercial banks were not interested in the agricultural sector or in serving small rural clients. In #22 Albania and #46 Lesotho, the turning of previously state-owned banks into commercial banks (Mountain Areas Finance Fund, Post Bank) was a slow process, which was not completed within the project’s lifetime.

181. The participation of commercial banks, which may have been assumed at project design, often did not take place as planned. For example, in Ethiopia (CPE), at design, the expectation was that there would be commercial bank partners participating as wholesale lenders. However, onlending rates for banks were higher than for MFIs, which became a disincentive for the commercial banks to participate, and there were no guarantee schemes backing up these operations.

182. Commercial banks often had no presence in remote and poor areas and were reluctant to lend to smallholder farmers, because of the risks related to the lack of infrastructures (access roads, electricity, telecommunications), the dispersed clientele, the vulnerability of agricultural activities and the length of production cycles. For example, in Mozambique (CPE 2016), 70 of the 151 districts in the country had no bank presence. In Egypt (2016 CPE), commercial banks were not able to address the high demand for credit in rural areas because they do not lend to the landless and to smallholders. In #04 Argentina, commercial banks were the only choice available to engage within the project areas, although these were hesitant to lend to the rural poor because of poor repayment histories.[127]

183. In countries with more sophisticated and larger financial sector stakeholders, such as Armenia, Moldova and Azerbaijan, commercial banks have been successful in providing smallholders with access to financial services, as noted by the ESR on smallholder access to markets (2016).

184. **NGO-type microfinance institutions – CBFOs, VSLA or credit groups** and **SACCOs or Credit Unions –** that are not part of the formal financial sector were often called in to fill gaps left by formal FSPs, such as banks or regulated MFIs. In overall terms, their performance was mixed; however, in many cases, they were strong in reaching out to the poor and to women (chapter IV D).

185. CBFOs, which are a small member-based and self-governed type of MFIs, can be clustered according to focus and level of formality. Among the most common types of CBFO are informal ones: small community-based savings groups and credit groups such as rotating savings and credit associations, village savings and loan associations, and village banks. A more formal type of CBFO are SACCOs or credit unions, and financial services associations, in which each member purchases shares and holds one vote (these are common in Kenya, Sierra Leone and Benin, for example). Generally, these CBFOs live on the funds they mobilize from members as shares and deposits. However, especially for the semi-formal or formal[128] ones, the longer-term strategy may comprise establishing relationships

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[127] In #04 Argentina, loan requirements were found to be exclusive because they required groups to be set up (which was difficult to execute in the project area). In addition, youth were excluded from taking credit.
[128] Credit unions or SACCOs can be a formal and large type of FSP (as in Ghana or Bolivia, Plurinational State of), and even be fully integrated into financial-sector or banking laws (Bolivia, Plurinational State of). In other markets, they are not under the supervision of the central bank or banking supervisor (e.g. Rural Savings and Credit Cooperatives, or RUSACCOs, in Ethiopia).

with wholesale lenders or commercial banks, to broaden their range of services and access external funding.

186. CBFOs were widely used to provide financial services (in 12 projects out of 25). Their presence is positively correlated with project effectiveness and poverty impact; however, their sustainability is often not assured. CBFOs cover a variety of entities that provide a range of financial products and services to a small target market in a limited geographical zone, such as village savings and loan associations, SACCOs or rural savings and credit cooperatives (RUSACCOs), or credit unions. CBFOs often operate in remote areas that lack access to formal financial products and services. Their legal status can be informal without any government regulations, or regulated under the law applicable to cooperatives. CBFOs are self-governing and rely partially or wholly on volunteers; therefore, as a participatory financial approach, they are well-suited to achieving the inclusiveness goal set in IFAD's mission. Apart from credit unions, which are credit-driven, CBFOs are primarily savings-driven, while both rely on funds from their members. However, the fact that CBFOs generally have no access to external funding limits their outreach and growth opportunities. At the same time, protecting their internal funds – as they are only circulated among members – often limits their prospects for sustainability.

187. The following case from Nepal illustrates the challenges that CBFOs often face in terms of effectiveness and sustainability (see box 12).

Box 12
Village finance associations in Nepal

In Nepal, the Leasehold Forestry and Livestock Programme created 36 village finance associations, which have mobilized capital from member contributions for a value of approximately US$310,000. Results, however, remain unsatisfactory in terms of the quality of financial services and of institutional performance. The management committees, account committees and loan committees have modest capacity. The accounting and financial records are rudimentary, uneven, difficult to reconcile and do not allow for easy assessment of the financial performance of the village finance association. Members lack understanding of the basic principles of savings and credit operations. The training provided for members was only nominal (two- to three-day seminars) and clearly inadequate. Many members were already part of other project-created savings and credit schemes, and their motivation to join the leasehold forest user group (LFUG) savings and credit scheme appeared to relate more to the benefits expected from other components of the project (e.g. goat distribution). The efforts to federate LFUGs into village finance associations or cooperatives did not produce satisfactory outcomes, mainly because of shortcomings in the capacity of the selected service provider, the contract with which was terminated following the 2010 supervision mission. A recent LFUG categorization study carried out by FAO found that only 16.7 per cent of LFUGs are financially active and that the average member deposits were only NPR[129] 12.6 per month (equivalent to approximately US$0.15).

Source*:* Nepal CPE (2012).

188. Eight projects have reported the presence of credit unions, SACCOs or RUSACCOs. Credit unions performed well where they had a history and were linked to a support structure. For example, in #06 and #19 China, IFAD used the existing credit cooperatives network. In #08 Ghana, the cooperation with credit unions also worked well. Both the number of credit unions and service delivery improved as a result.

189. In other cases, the use of cooperatives correlated with poor effectiveness (#01 Belize, #46 Lesotho). In #9 Dominican Republic, at design stage, it was assumed that a second-tier institution would be in charge of managing the fund and channelling the resources to local NGOs and SACCOs chosen as FSPs in the project area. However, as a consequence of the 2003/2004 financial crisis, commercial

[129] Nepali rupee.

banks went through a recapitalization process and limited their operations to wealthier clients. Therefore, MFI-NGOs were selected, as the project expected that they would be more willing to provide small loans to poor households. A similar case was observed in Georgia (see the 2017 CSPE working paper).[130]

190. However, the growth of these informal or semi-formal MFIs (NGO-MFIs, SACCOs)[131] was often limited by the lack of an adequate support structure, as was the case in India, Ethiopia, Mozambique and Uruguay, for example. Often, they were ineffective and unsustainable because of capacity and funding constraints, and because a supporting apex structure was absent. For example, in Ethiopia (CPE), the rural financial sector (MFIs and RUSACCOs) evolved rapidly over the last 15 years when it became an explicit focus of government policy and began receiving support from IFAD and other support agencies. The clients of MFIs increased, from less than 500,000 in 2001 to approximately 4.2 million in 2014, while members of RUSACCOs grew from an almost negligible number to approximately 945,000.[132] However, despite this growth, there was no realistic assessment of the RUSACCO system and, without an apex providing support, the capacities at grassroots level were grossly overestimated. The RUSACCOs in Ethiopia are often small organizations, and scarcely more organized than savings and loan groups.

Box 13
Savings and credit cooperatives organizations (SACCOs) in Kenya

SACCOs have played an important role in Kenya. To date, 5,122 SACCOs have been registered, servicing 3.3 million members with a loan and share size of KSH[133] 100 billion (equivalent to approximately US$0.982 million) and deposits of KSH 165 billion (US$1.620 million). Approximately 180 SACCOs provide front-office services, including basic banking services. Poor governance, weak management and supervision, and a lack of equity have limited their potential for growth. Their share of total financial services provided declined from 13.1 per cent in 2006 to 9 per cent in 2009, most likely as a result of increased competition from banks and MFIs, as well as of product offerings not being sufficiently flexible for potential users. In November 2008, Kenya became the first African country to develop a law specifically designed to regulate SACCOs. They are registered, regulated and supervised by the 2008 SACCO Societies Act, which is a part of the Cooperative Societies Act, enforced by the Ministry of Cooperative Development and Marketing. The regulatory authority is the SACCO Societies Regulatory Authority, which has a mandate to license, regulate and supervise SACCOs and to develop regulations to be issued under the Act to operationalize it.

Source*:* ESR Kenya case study, based on the Kenya CSPE (2019).

Country capacity as a critical factor for project performance

191. Evaluations cited the limited analysis of the institutional and political context as the most frequent reason for poor performance. This was highlighted as a factor of low effectiveness in nine projects[134] and three CPEs.[135] The evaluations noted a favourable enabling environment for rural finance in four countries only: Armenia (#14), China (#19), Uruguay (#25) and India (2011 CPE). The choice of an

[130] In Georgia, IFAD (in cooperation with the World Bank) promoted the rapid expansion of credit unions (under ADP); there was little emphasis on savings mobilization or sustainability. Some of the credit unions emerged primarily from local moneylending operations to take advantage of the legal protection offered by the cooperative law. Out of more than 160 credit unions established from scratch, only 32 received a license from the central bank, in many cases despite they did not fulfil some of the criteria at the time of licensing (IOE thematic evaluation 2007). According to the latest information, only two credit unions had survived by 2017 (CSPE 2018).
[131] "Semi-formal" means not under a financial-sector law or regulation, e.g. when cooperatives are regulated under the cooperative law but not with regard to their financial intermediation activities, and thus do not benefit from prudential supervision.
[132] As at 30 September 2014, the sector estimated 4,064,399 MFI clients and RUSACCO members, a growth of 59 per cent from a 2012 base of 2,727,889, and 60 per cent of the programme development objective. However, the capacity of RUSACCOs and their savings mobilization remained limited. IFAD has been working with the Federal Cooperatives Agency (FCA); however, it lacked a realistic approach towards achieving the ambitious targets to support an effective federation structure for RUSACCOs.
[133] Kenyan shilling.
[134] #09 Dominican Republic; #15 Zambia; #19 China; #32 Pakistan; #33 Albania; #47 Georgia.
[135] Argentina CPE; Bangladesh CPE; Ecuador CPE.

appropriate IFS strategy that included approaches and partners was cited as an element of success in seven cases. A successful project strategy included consideration of the funding modalities, as noted for example in China (#6 and 19#), and the choice of the right partners, done for example in India #18 and in Bangladesh #40. On the other hand, inappropriate strategies were named as a factor undermining effectiveness in seven projects.[136] Insufficient funding was a constraint in three projects (#24 Sudan, #41 Philippines and #45 Cameroon). The evaluations found the choice of financial products inappropriate in another three cases (#04 Argentina, #41 Philippines and #42 Egypt).

192. **Limited capacity in governments and PMUs.** The weak capacities of government partners to manage a rural finance project (or component) often caused projects to perform weakly. In some cases (#15 Zambia, #23 Georgia), the projects failed to reach agreement on the implementation approach and the rural finance components were never implemented. In other cases (e.g. #4 Argentina) the government took over the role of the lender, with poor results.[137] In Ethiopia (CPE), the PMU was effective in providing finance to MFIs (under RUFIP-I and II). It had a well-developed system of assessing business plans and disbursing funds in a timely manner. However, cooperation with FSPs[138] was difficult, and capacity-building had been delayed because of procedural issues. The insufficient cooperation with other national agencies, including those overseeing SACCOs, negatively affected the work with RUSACCOs and their unions in the field, for example because of insufficient field-level staff.

193. **Limited FSP capacity** was the main reason for poor delivery in eight cases.[139] In #01 Belize, the lack of qualified FSPs was a challenge. Negotiations with the two credit unions identified during appraisal failed; two local credit unions were then accredited under relaxed selection criteria.[140] In #22 Georgia, one of the five MFI partners selected for onlending was not able to fully use the funds allocated. In #14 Armenia, the know-how/technical assistance (Rural Business Intermediation Service) component did not materialize as intended because of the withdrawal of partner cofinancing. In #15 Zambia, project design also included overly optimistic assumptions about the capacity of partner organizations. In fact, the project was unable to identify a contractor for implementing the Rural Financial Services Development subcomponent; as a result, this subcomponent was not implemented. The CLE 2007 states that "project implementation is managed by units and cooperating institutions that do not have the technical expertise to manage the rural finance component with the level of competence required for this sector", and there is no evidence that this situation has changed significantly.

194. The limited technical capacities of FSPs would require institution-building measures over a longer period of time, to be delivered by a local provider – either associations or commercial service providers (e.g. a banking training institute or consulting firms). The limited availability of such meso-level providers is a common constraint. Often, local funding sources and instruments for their capitalization are also limited. This, however, is often not a preferred option by governments, as these institutions are under private or community ownership and governments are reluctant to provide funds for such purposes. In addition, support instruments such as equity funds are often not available locally, and mobilizing investments from international impact investors is beyond reach for the smaller FSPs.

[136] #01 Belize, #04 Argentina, #09 Dominican Republic, #32 Pakistan, #33 Albania, #45 Cameroon, #47 Georgia.
[137] The regional government's management of the funds was found to be poor: there was an 18 per cent default rate and 50 per cent of loans were at risk. Credit funds were not placed in institutions or agencies that would oversee a long-term recovery and delivery model. Only two regional governments decided to create a fund to rotate project credit (as stated in the loan agreement).
[138] The National Bank of Ethiopia (NBE), the Association of Ethiopian Microfinance Institutions and FCA.
[139] #01 Belize, #14 Armenia, #15 Zambia, #22 Georgia, #22 Georgia, #23 Georgia, #31 India and #43 Malawi.
[140] As a result, their performance was not satisfactory. Both credit unions managed to approve 1,056 loans; however, loan delinquency remained high as the credit unions claimed to have lent out too fast and too soon.

195. **Lack of meso-level institutions.** A common design assumption was that a state bank would assume a meso-level role and act as the implementing agency to oversee components at the micro level, which later did not happen. Otherwise, a commercial bank would be chosen as a participating financial institution but had little experience in financing small agricultural producers; arrangements would often break down during implementation. In some cases, new FSPs were built, with mixed results.[141] The performance review highlighted that convincing state or commercial banks to assume meso-level functions, or building new FSPs from scratch, is a lengthy process and requires significant investment.

196. In Argentina (CPE 2009), agreements with the provincial banks (most of which were privatized in the 1990s) sought to clearly dissociate the role of the financial institution responsible for providing credit from that of the institution providing technical support or business development services. A similar development was noted for Egypt (2016 CSPE), where two channels were recently used: the first between the Social Fund for Development and the National Bank of Egypt, a large commercial bank, and the second through ADP, a parastatal organization with multiple functions. ADP lends funds to the Commercial International Bank, which then acts as fund manager for onlending to 12 selected participating financial institutions.

197. Rural FSPs often did not have effective apex structures in place, as in the case of the RUSACCOs in Ethiopia, or the MFIs in rural Mozambique. Where inputs to apex structures were provided (#41 Philippines), the results were mixed. Where apex organization were already well established (SIDBI India, Palli Karma-Sahayak Foundation Bangladesh or ARB Apex Bank Ghana), the input and the project led to good results.

198. Building on institutions and structures, where they existed, was therefore a factor of success. For example, in #40 Bangladesh, the design of and strategy applied to microfinance services development was based upon existing networks. In #18 India, a key design strength of the project was the choice of SIDBI, an apex development bank, as the implementing partner, and through that process MFIs could obtain linkages with formal financial institutions. SIDBI is one of the major actors in microfinance development in India. In recognition of the need for a vibrant pro-poor credit delivery system and of its mandate to serve small-scale industries, including the microenterprise sector, SIDBI launched its microcredit programme in 1994, to provide soft loan assistance to accredited NGOs for onlending to the poor, particularly women. However, in #08 Ghana, the fierce competition between formal and informal institutions made supporting a collaboration strategy a wrong approach.

D. Outreach of IFS interventions

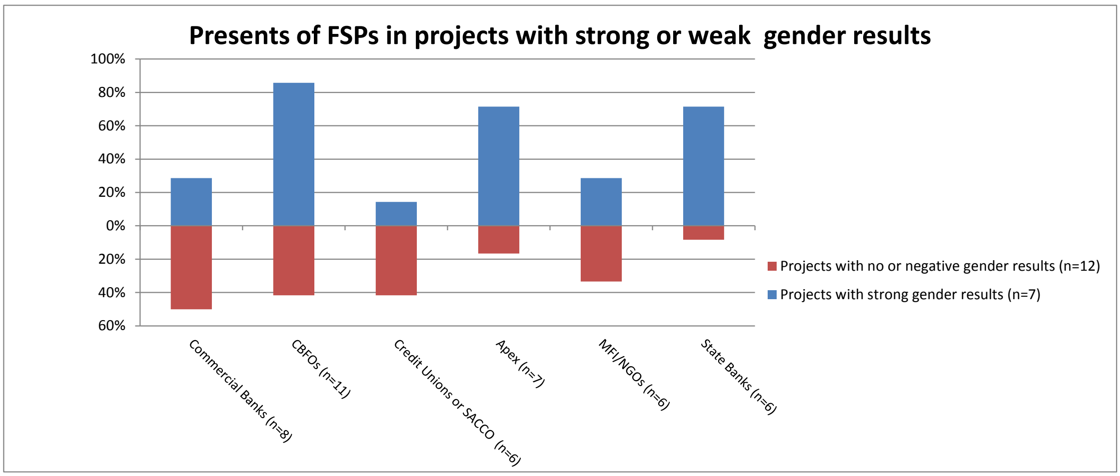
Outreach to women

199. Within the sample, 7 projects reported positive gender results; 12 projects reported negative or mixed results. Projects with positive gender results relied more on CBFOs for service delivery than did those with negative or mixed results (86 per cent, compared to 42 per cent). On the other hand, those with negative or poor gender results involved commercial banks and credit unions or SACCOs, to a larger extent.

200. Figure 6 below compares the presence of FSPs in projects with strong gender results and projects that had no or negative gender results.

[141] In #18 India, engagement of the NGO-based MFIs worked well; in the case of #25 Uruguay or of the MFIs by FARE, in the Mozambique CPE, this solution did not yield adequate results.

Figure 6
Presence of FSPs in projects with strong or no/negative gender results



Source*:* ESR PPE sample analysis.

201. MFIs were successful in reaching out to women in #22 Georgia: approximately 50 per cent of microfinance lending was extended to women borrowers. MFIs or NGOs were also instrumental in achieving good gender results in #40 Bangladesh and #41 Philippines. In #8 Ghana, gender equality was not an initial focus area of the project. However, microfinance services of rural banks are now better accessible to both women and men. The women clientele of rural banks is approximately 42 per cent, while that of credit unions is close to 35 per cent.

202. Credit unions often did not target women in particular. An exception is #09 Dominican Republic, where the targets regarding women were overachieved – 59 per cent of the clients were women, when the prefixed target was of 50 per cent. In #19 China, women opened savings accounts and used loans, although male members of the family still play a large role in securing loans. In #4 Argentina, the type of services and products offered by credit unions meant that women were less attracted.

203. The ESR on gender equality and women's empowerment (2017) found that in most of the projects reviewed, the large number of women beneficiaries reported did not result from deliberate targeting, but rather, often, from self-targeting, for example by offering smaller loan sizes. However, it also found some good practices, for example the promotion of savings and credit associations as a first point of entry for financial services for women. The ESR highlighted the importance of targeting FSPs that had a strong female client base.

204. Many of the successful cases of CBFOs were located in South Asia, for example #31 India, #32 Pakistan and #40 Bangladesh. In #31 India, which was implemented in Meghalaya and Uttarakhand States, the project was immensely successful in its sequencing of activities for the engagement of women: first, the project reduced drudgery; then, it provided empowerment activities through group formation (social and financial); finally, it built their social capital for engaging in livelihood activities. This sequencing should be viewed as a "critical pathway for development".

205. Women clearly benefited from the organizational activities that often accompanied the provision of rural financial services. Some MFIs put in place a social mobilizer in addition to a finance specialist, which was seen to promote the process of empowerment. These activities often helped women to build their social capital, for example by strengthening their mutual bonds as well as their links with local banks.[142] However, the potential of women as managers or leaders of FSPs, or as

[142] Reported for example by the impact evaluation in Sri Lanka.

staff of the various types of FSPs or CBFOs, was either not reported upon or not clearly addressed (e.g. in #06 China, #14 Armenia and #33 Albania).

Outreach to the poorest

206. In many cases, IFS projects found it challenging to reach very poor groups, because: (i) FSPs face high transportation costs if they are required to access remote areas; (ii) there are diseconomies of scale in managing small loans for an FSP; and (iii) there is a problem of information asymmetry (FSPs may not know whether the very poor are creditworthy, and tend to be conservative); (iv) poor and very poor clients are often discouraged by the lending terms (e.g. interest rates, repayment period and other conditions).[143]

207. These constraints can be addressed, for example, if FSPs provide products that are suited to the cash flow of very poor borrowers. Some clients may prefer savings over lending, or access to grants or in-kind support, or may not be willing or able to borrow (e.g. due to the lack of a credit history or collateral). In addition, very poor borrowers must be aware of the financial services available and must be assisted in negotiating with FSPs (see box 14 below). This requires additional efforts that many of the mixed projects are not able to undertake unless their specific objectives include financial inclusion.

Box 14
Village counsellors in Georgia

A case in which poor people in remote mountain regions were successfully targeted was found in Georgia (2018 CSPE), where IFAD provided training and capacity building to MFIs (under the Rural Development Project, RDP). Through the successful lending activities, the MFIs increased their portfolios and were able to establish additional branches. One of the MFIs, Credo, established a system of village counsellors. Acting as MFI agents, counsellors identify potential clients, disseminate information in the community, and carry out the initial paperwork for the loan application, without the farmer having to visit a branch. Dealing mostly with a rural population with no banking experience, counsellors provide training in repayment planning and facilitate special trainings in those aspects of farming for which financing is provided. This arrangement is considered one of the main keys to success in reaching out to rural clients. Credo's village counsellor system allows for gaining detailed technical agricultural knowledge and contextual understanding that in the long run, will help to identify the most suitable financial services (e.g. loan products with a longer tenure), develop guarantee systems that are as effective as possible, and identify any potential for systemic failure.

Source*:* Georgia CSPE Working Paper (2018).

208. It is mainly for these reasons that outreach to the very poor has been limited. Positive results for the very poor were seen in two projects (only), both with positive overall achievements, while seven projects registered negative or mixed results. Project #19 China has been successful in targeting the poor through credit lines provided to rural credit cooperatives. In #43 Malawi, which was not a successful project, a group-based approach (savings and loans) was used to target women and poor people.

209. The evaluations reported that especially for small financial institutions, the operating costs of reaching out to the poor would have been high, such that the interest rates would have been too high to be attractive to the poor. For example, in #18 India, the MFIs have generally served relatively poor clientele; however, "very poor" clients have yet to be reached, for example through financial services other than loans. In #33 Albania, First Albanian Finance Development Company did not reach poor people directly, as its terms of credit and interest rates were prohibitive for them: in 2013/2014, the interest rates were of 17.5 per cent for

[143] The majority of the respondents to the ESR survey quoted the pro-poor focus of IFAD's IFS operations as an area of strength. However, some cautioned that a narrow focus on specific target groups, for example the poor and poorest, women or remote farmers, may exclude others, such as farmers or enterprises that could serve as models and pull along the poorer parts of the population.

loans up to five years and up to 21 per cent for loans of more than seven years. The inflation rate in the region was 2 per cent.

210. **Graduation** is an approach towards addressing the issue of financial exclusion in a targeted manner. In the context of IFAD, graduation pilots are implemented alongside more systemic approaches to strengthen financial service provision. Graduation supports income-generating activities and building assets that would enable people to move out of extreme poverty, thereby creating the prerequisites to subsequently access financial services. Graduation approaches use the targeting and transfer elements of safety net programmes; however, they also introduce entrepreneurial activities through training, asset grants and credit. Graduation has been successfully implemented in one project within the reviewed sample (#4 Argentina).[144] #04 Argentina is also the only project to report successful outreach to indigenous people (through the graduation project).

211. The graduation approach has now been implemented in a number of programmes, such as PROFIT in Kenya. A successful case of graduation has also been reported in the Rural Microfinance and Livestock Support Programme in Afghanistan (see box 15).

Box 15
Rural Microfinance and Livestock Support Programme, Afghanistan

The project included a US$7.5-million Innovation Fund which, among other destinations, was used to test the Targeting the Ultra-Poor (TUP) model, initially developed by BRAC in Bangladesh, in two provinces. The model was used to link the ultra-poor with self-help groups and cooperatives to better access finance. The approach was to conduct skills training in financial services, livestock production, practices and technologies, in addition to providing productive assets to the 1,200 ultra-poor targeted in the pilot-test model. The project managed to reach 1,760 ultra-poor female-headed households in Bamyan and Badakhstan.

At the end of the project, the impact assessment showed that, while the participation of women in the main microfinance component was low, 100 per cent of the TUP beneficiaries were women, mainly widows or women whose husbands were disabled. The assessment also showed that after the TUP was implemented, 100 per cent of the beneficiaries were able to access microfinance, compared to only 6 per cent before implementation. By the end of the project, the beneficiaries felt that their income was sufficient to meet their household needs and that they had become food-secure. Through the TUP intervention, the beneficiaries were also provided with health services, treatment and health subsidies, so that those living in remote areas could also meet emergency health needs.

The participants in the final stakeholder workshops agreed that the combination of in-kind and financial support to ultra-poor households was highly effective, as it promoted livelihood means, income and food security through livestock production. Successful implementation of the piloting attracted further international funding from the World Bank and the Italian Development Cooperation for amounts of US$15 million and US$3.4 million respectively, to scale up the TUP model in other seven provinces.

Sources*:* Project completion report (2017); Project completion report validation (2018); Impact evaluation report, commissioned by the Ministry of Agriculture, Irrigation and Livestock (2017).

Outreach to MSMEs

212. Some projects reported to have successfully targeted MSMEs (#14 Armenia, #33 Albania, #40 Bangladesh). #14 Armenia, with its rural finance facility targeting households based on-farm and off-farm microenterprises (with loans of up to US$5,000) and rural SMEs (loans of up to US$150,000), which ultimately provided 474 loans between US$3,000 and US$100,000, for a total amounting to US$17.5 million.

213. Finding the right instrument for funding MSMEs has often been challenging. Some projects were able to channel funds through apex organizations (e.g. #40

[144] However, efforts have also reported as ongoing for Bolivia, Plurinational State of (CPE) and Bangladesh (CPE).

Bangladesh and #41 Philippines). Others had to use wholesale funds managed by the government (e.g. #13 Moldova, #14 Armenia). A problem with non-private sector financial funds (i.e. state banks, state-managed funds and programme-managed funds) is that the desire to support beneficiary businesses or, simply, poor credit management often results in loans being granted to borrowers whose businesses are not ready for credit.[145]

214. In IFAD, the approach of linking finance and business development services (sometimes also called business support services) has been a standard approach for over two decades.[146] Business training is provided to prepare the enterprises technically and to access credit. At the same time, financial services provide investment capital for productive investments and many other financial services for firms and households. Both strategies are supposed to work hand in hand.

215. Projects often encountered difficulties in linking both types of services. Therefore, some projects provided training to businesses without linking it to rural finance (e.g. #01 Belize, #06 China, #20 Mongolia). Other projects delegated implementation to a single technical service provider, which oversees service providers for entrepreneurs, business development services and financial institutions/FSPs (e.g. Kenya's PROFIT). However, because entrepreneurial support providers are by nature very different from the service providers that advise FSPs, this approach is questionable. In #41 Philippines, business development services were provided by approximately 76 contracted service providers in a vast range of topics, including: starting a business, technical skills, enterprise development and management techniques, organizational strengthening, product development, market research, market linkages, packaging and labelling, costing and pricing, record keeping and accounting, and relevant food safety standards.

216. Within the review sample, business development services were provided by three stand-alone rural finance projects (#13 Moldova, #40 Bangladesh and #41 Philippines). In addition to the challenges encountered in synchronizing the two tracks of rural finance and business development services, difficulties with regard to targeting and monitoring arose in all three projects.

Box 16
Lessons learned on business support from the Philippines

Based on the awareness that conducting business operations requires a specific set of abilities, it is necessary to actively motivate start-up microenterprise candidates and to identify those who are interested and display more potential before providing training on various skills, while establishing an acceptable attrition rate.

Business development services should be designed according to the needs of different types and maturity levels of micro and small enterprises. The support services provided should be targeted and consistent. Ways to charge at least part of the business development service costs (set at a realistic level, depending on the level of enterprise development) should be considered, to confirm interest and commitment and enhance sustainability.

A systematic approach to post-training impact assessment should measure the actual adoption rates. Beyond the obvious aspect of monitoring, this may produce deeper insights into which elements of the training were more or less effective, economical and feasible for microenterprises of different levels or types, and enable subsequent adjustments in approaches and curricula.

Attention to the environment and to natural resource management should be systematically incorporated into the provision of non-financial services to microenterprises. This could take the shape of monitoring and managing potential negative impact on the environment, as well as encouraging the microenterprises engaged to make a more efficient use of resources.

[145] As noted by the ESR on smallholder access to markets.
[146] Notably, in the early years of microfinance, many NGOs provided both services in a single organization. Today, it is good practice to offer these services under two different organizational and legal settings.

Microenterprises, especially start-ups and new companies, require more than one-off training and follow-up support.

The issue of recovering the costs relating to business development services requires more attention at the design stage.

Source: #41 Philippines PPE.

217. Linking finance and business development services poses significant challenges, as the timelines of the two workstreams follow different logics and are often difficult to reconcile with one another. Starting a finance component depends, to a large extent, on available partner capacities at all levels: FSPs, apexes or the enabling environment. It may take a long time for the "financial system" in the project region to become operational, especially when partners at micro and meso level are not available or are weak. For example, establishing a fund and selecting and partnering with FSPs are lengthy processes; if the FSPs' capacities must be built, even more time is required. In practice, projects have often reported that the technical side of their productive support was in place, but the finance activities were delayed.

E. Impact of IFS interventions

218. **Benefits of financial services.** Impacts on target groups are expected to flow from the (economic and social) benefits arising from the provision of financial services.[147] For example, small businesses benefit from access to credit, while impact on the broader welfare of a borrower's household may be more limited. Savings help households to manage cash flow spikes, smooth consumption, and build working capital. Access to formal savings options can boost household welfare. Insurance can help poor households mitigate risk and manage shocks. New types of payment services can reduce transaction costs, and seem to improve households' ability to manage shocks by sharing risks.[148]

219. Within the sample reviewed, 8 (out of 23) project evaluations stated that there were benefits for smallholder households. Benefits from savings offered to smallholder farmers in combination with loans were noted in five evaluations (#6, #14, #25, #31, #42). Two projects offered loans only with positive effects on the poor (#19 China and #46 Lesotho). One project offered grants only (#18 India), successfully reaching the poor. In addition, capacity building and training (including financial literacy training) were instrumental in achieving those benefits.

220. Four (out of 23) project evaluations found positive effects on MSMEs or rural enterprises. [149] Benefits from loans offered to MSMEs were noted in three evaluations (#9, #14, #40); in Moldova (#13), loans were offered to larger enterprises, with indirect benefits – such as employment – expected to flow.

221. **Indirect benefits.** Evaluations noted the ambiguity in relation to MSME targeting. For example, in #41 Philippines, it was not entirely clear whether the focus was on: (i) the lower end of microenterprises themselves as the main target group and direct beneficiaries; (ii) helping "larger-scale microenterprises", which had a greater potential to generate job opportunities for poor rural people, even if they themselves could also be part of the target group; or (iii) both. This also relates to the question of whether job creation was expected from self-employment through

[147] At the household level, such benefits include: (i) increasing and/or diversifying income through higher agricultural productivity, expansion of productive activities or enterprise creation; (ii) accumulating assets, including productive (land, equipment, livestock), non-productive (housing, appliances, consumption goods) and human assets (investment in health and education); and (iii) smoothing consumption and maintaining asset base in case of shocks (resilience). IFAD, *Economic and financial analysis of rural investment projects* (Rome: IFAD, 2015).

[148] Robert Cull, Tilman Ehrbeck and Nina Holle. *Financial Inclusion and Development: Recent Impact Evidence*. CGAP Focus Note No. 92 (CGAP: 2014).

[149] For rural enterprises, access to finance level may lead to benefits such as (i) higher financial performance, including higher revenues and fixed assets; and (ii) job creation. See IFAD, *Economic and financial analysis of rural investment projects* (Rome: IFAD, 2015).

new microenterprises, from increased employment opportunities deriving from growing businesses, or from both, in a balanced manner.

222. In the case of #47 Georgia, the IOE impact evaluation examined the backward linkages from leased equipment provided to agro-processors through IFAD-financed loans. The analysis showed that indirect benefits consisted in increased employment (in lessee-run operations) and an increased supply of inputs (primary products). The minimum increase of incomes in real terms was of 10 per cent. At the same time, the evaluation showed that the project did not have a significant impact on non-agricultural incomes, as envisaged in the project design.

223. **Limited evidence on impact.** However, a major limitation on attributing impact to inclusive financial services is the lack of credible data and measurements. This is a broader methodological problem, not limited to IFAD, that to date has prevented drawing general conclusions on IFS as a means to overcome poverty. A new meta-study on financial inclusion highlights the limited contribution that impact evaluations have been able to make to this debate. However, as the same study concludes, the alternative to financial inclusion is not to do "nothing", but rather to uncover what kinds of interventions work best for which parties and where, and how best, to deliver them.

Box 17
Limited evidence on the impact of financial inclusion

A new meta study on financial inclusion cautions against a possible hype around the idea of financial inclusion. On average, financial services may not even have a meaningful net positive effect on poor or low-income users, although some services have some positive effects for some people. Accessing savings opportunities, according to the study, appears to have small but much more consistently positive effects for poor people, and bears fewer downside risks for clients than credit. The study noted as a glaring omission that impact studies generally did not assess debt levels or indebtedness patterns in depth as an outcome of financial inclusion. The study calls for a clear-sighted discussion on the many valid alternatives to financial inclusion programming and on how best to gain the necessary evidence to inform that discussion.

Source*:* Maren Duvendack and Philip Mader. 2019. Impact of financial inclusion in low- and middle income countries: a systematic review of reviews. Campbell Collaboration, 3IE.

Impact at household level

224. **Household incomes.** Changes in income were often broadly attributed to the project, without any evidence on causal linkages (e.g. #06 China, #18 India). The evaluation of #43 Malawi illustrates some of the methodological challenges. The PPE found that there was little difference between income and asset distribution between target and control areas and across time periods. It is unclear whether this lack of difference results from methodology, sampling, selection bias in the survey, etc. The increased income of target households was also found to not have undergone a significant positive change in real terms, which might be attributable to the high rates of inflation experienced in Malawi in recent years.

225. The #46 Lesotho PPE comments on attribution problems due to the absence of control groups, lack of random sampling, inconsistencies in data and analysis, varying indicators and sampling frameworks, and missing raw data. Additional impediments to valid impact information comprise: timespans that are far too short for significant impacts on end users; distortions of results at household level because of the fungibility of money; lack of adjustment for inflation; and a preoccupation with a narrow focus on end-user impact. The evaluation notes that impact requires more than financial services – a conducive and receptive economy together with broad processes of economic growth and development – and decades, not years, may be required to yield measurable impact. This may also require supporting inputs over timespans that far exceed the duration of projects.

226. The PPE of #42 Egypt attempted to establish causal linkages between the credit provided by the project and rising household incomes by analysing credit use. It determines that credits (EGP[150]168 million, approximately US$9.38 million) were used to finance 8,300 large ruminants and 13,900 small ruminants and productive capital assets, including orchards, tractors, pumps, sprayers and vehicles.

227. **Over-indebtedness** was not identified as an issue in the evaluation sample reviewed. It seems that with the general focus on credit and assuming the positive effects of lending, this issue is generally overlooked in IFAD. In line with the proposal to focus on the diversity of financial services and especially savings, the fact of over-indebtedness should be considered in demand studies, and caution should be applied regarding the absorptive capacity of smallholders.

228. **Food security.** A similar methodological problem exists when trying to ascertain the impact of rural finance on food security. Evaluations often argue that impact seems to be plausible whenever productivity increases, for example in #22 Georgia. Evaluations argue that it is reasonable to expect a significant impact on production and food security as a result of the disbursement of US$9.4 million in rural credit to farmers under the project, funds that were mainly invested in livestock and agricultural activities. However, as no impact assessment on yields or food security was conducted at project completion, there are no data to support this claim.

229. For #18 India, the evaluation used project impact data that showed that client households improved their food security after participating in the programme, as the proportion of households with one or two meals per day declined and the number of households having three meals per day increased from 62 per cent at baseline to 79 per cent at end line. However, a similar change was also observed in the non-client households, although the end-line proportion of non-client households having three meals per day was lower than that of client households. However, it should be recalled that these claims are made despite an absence of data on agricultural productivity increases.

230. **Social capital.** The PPE of #46 Lesotho is one of the rare cases providing rich information on how IFAD has built social capital through IFS. The evaluation emphasized that, in line with the IFAD Rural Finance Policy, the project had effectively built the capacity of two types of FSPs as providers of financial services to the target group: private MBFIs and the state-owned Lesotho Post Bank.[151] In both cases, the contribution of the project was essential to develop the FSPs into self-reliant financial intermediaries. The village agents trained by local NGOs were instrumental in establishing and promoting groups and in developing an institutionalized system of group facilitation. Members had been developing savings and borrowing alongside investment and repayment habits. By institutionalizing the members' and group management practices, including supervision and reporting, the members' human capital was converted into group-based social capital. This process was greatly aided by the predominance of women among the group members as well as the group management, with very high literacy rates.

Impact at institutional, sector and policy levels

231. **Institutional-level impact.** Seventeen project evaluations (74 per cent) found that there had been positive changes on institutions. In #06 China, the impact on the institutional level consists in the strengthening of the RCC network. Project #40 Bangladesh shows a positive impact at institutional level only, with the institutionalization of the microenterprise financing mechanism through MFI partner organizations. The Yemen CPE is a clear example of negative impact on institutional changes. Because the state-owned CACB displayed a lack of interest,

[150] Egyptian pound.
[151] In particular, these were VSLAs and savings and internal lending communities in cooperation with CARE and Catholic Relief Services; and Lesotho Post Bank with partial support from UNDP/UNCDF under their Support to Financial Inclusion in Lesotho project.

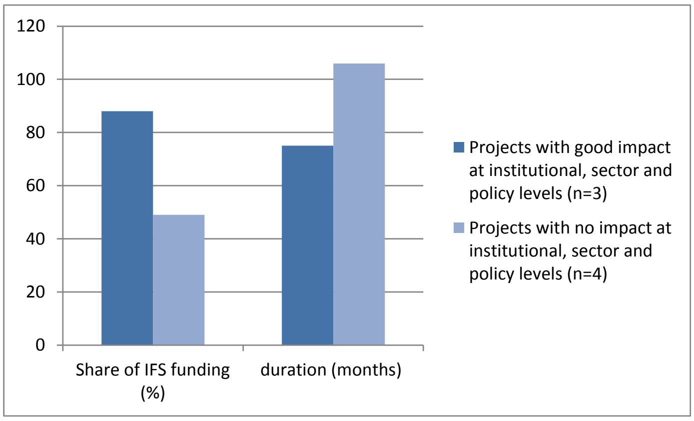
this model was particularly exclusionary to the rural poor. The poor experience of CACB with the projects effectively convinced it to eventually exit the agricultural lending sector.

37. **Sector-level impact**. Nine project evaluations (39 per cent) found that positive changes had occurred at sector level. The sector-level results were better reported in the CSPEs. For example, in Ethiopia (2015 CPE), RUFIP helped to establish a well-conceived and functioning system of microfinance, and as a result of its positive impact, the Central Bank created a new Regulation and Supervision Department for MFIs; in addition, a new Financial Services Department, which focused only on RUSACCOs was put into place. Notably, in Ethiopia, RUFIP worked alongside other donors, such as the World Bank, and under the clear guidance of the Central Bank, while the sector could also rely on a strong national microfinance association. In Niger (2009 CPE), the Rural Financial Services Development Programme contributed to the development of the National Microfinance Strategy adopted in March 2004 and supported the establishment of the national consultation framework. In Mozambique (2010 CPE), changes at institutional level consisted in the Office of Support to Small Industries' (*Gabinete de Apoio a Pequenas Indústrias*) engagement in the Agricultural Markets Support Programme, which helped to improve its business development service, by specializing in developing the capacity of rural producers, traders and small-scale agro-processers and supporting their ability to borrow.

232. **Policy-level impact.** Five project evaluations (22 percent) reported changes at the policy level. For example, in #08 Ghana, in partnership with the World Bank, the project contributed to the preparation of the Microfinance Policy of Ghana in 2006. In #13 Moldova, the project contributed to evidence-based knowledge and experience for policymaking in the context of the rural economy, together with USAID. #46 Lesotho contributed to a more enabling policy and regulatory framework for institutions in rural finance, through the issuance of a non-bank financial institution policy and regulatory framework and contribution to the capacity building of the Central Bank's supervisory function.

233. Positive impacts across all institutional, sector and policy levels depend, above all, on the availability of funding and the ability of the project to work across all three institutional levels (macro, meso and micro). Within the sample reviewed, all three projects that produced good impacts on the institutional, sector and policy level belonged to type A (stand-alone IFS projects),[152] while two of the four projects that did not have such effects were IFS-component projects. Figure 7 below also shows that the poorly performing projects took longer to implement.

Figure 7
Comparison of the share of IFS funding and project duration, for projects with high or low impact



Source*:* ESR project sample.

[152] #25 Uruguay (Type C) was excluded from this group because the reported impacts were not supported by evidence.

Intervention levels and impact

234. Overall, the ESR found that projects that worked with (existing) meso-level organizations (apex or apex funds) had better impacts at all levels. Projects that recorded impacts at multiple levels included #18 India, #40 Bangladesh, #14 Armenia, #13 Moldova and #08 Ghana. All of these projects worked on multiple intervention levels, as required by the 2009 Rural Finance Policy. On the other hand, the projects that recorded the least impact (#33 Albania, #42 Malawi, #47 Georgia) worked with FSPs at the micro level only. #45 Cameroon set out to work at macro, meso and micro levels; however, its newly established apex fund failed to deliver results within the project's lifetime.

Table 5
IFS models used by projects with documented impacts at different levels

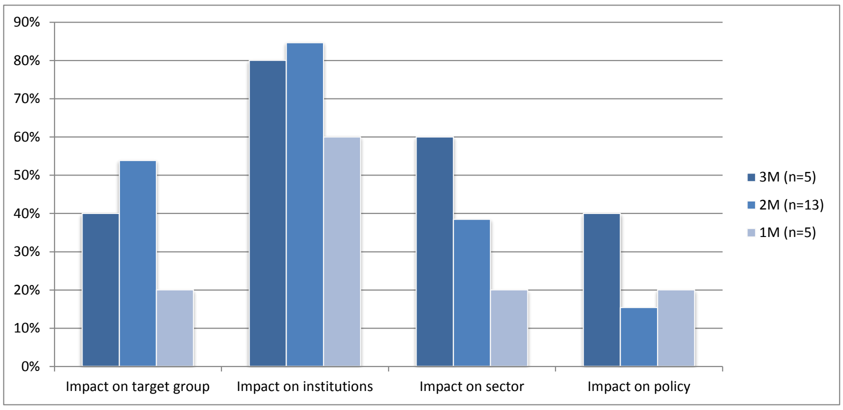
IFS Model	Intervention level			Impact level				Projects with impact
	Macro level	Meso level	Micro level	Policy Level	Sector Level	Institutional	Target groups	
Member-governed FSPs	o	O	√	o	o	√	√	#06 China
Linking MFI-NGOs and CBFOs	o	√	o	√	√	√	√	#18 India
Apex + MFI-NGOs	o	√	√	o	o	√	√	#40 Bangladesh
Apex fund + Banks	o	√	√	o	√	√	√	#14 Armenia
Meso level institutions + MFI-NGOs and CBFOs	o	√	√	√	√	√	√	#13 Moldova
Apex + Rural banks + MFI-NGOs and CBFOs	√	√	√	√	√	√	No data	#8 Ghana

Source: ESR project sample.
Note: √- present; o = not present

235. The findings are supported by the correlation analysis (see annex), which shows that the intervention models that worked on the meso level had a positive impact on institutions, while the models that worked only on the micro level did not. The ability to work at different levels depends, above all, on the funding available. Stand-alone projects with sizeable rural finance funding were more likely to have an impact at policy level than those working at meso and micro levels only.

236. The figure below shows that the interventions made at meso levels (2 M and 3 M) have achieved better impacts not only on policies and sectors, but also on institutions and target groups.

Figure 8
Proportion of intervention types achieving impacts at different levels*



Source: ESR project sample.
* *Note:* 1M = micro level; 2M = micro-meso level; 3 M = micro-meso-macro level.

F. Sustainability

237. The assessment of the sustainability of interventions in the financial sector features a number of challenges, most significantly the time required for FSPs to become financially sustainable. In IFAD projects, the assessment is additionally complicated

because IOE evaluations focus on the sustainability of benefits. Thus, the sustainability of financial-sector institutions is not systematically assessed.

238. The basis for sustainability assessments is often shallow, assuming for example that if loan repayments are good, sustainability is guaranteed. However, institutional sustainability needs much more. More reliable sources would be MFI or CBFO performance data or audited annual financial statements, or central bank reports. For example, #40 Bangladesh very briefly notes that given "the high recovery rate of microenterprise loans, it is very likely that the Palli Karma-Sahayak Foundation and partner organizations will continue providing the service". #20 Mongolia also reports superficially on the sustainability of lending in two places, intermingled with the productive side: "the sustainability of micro-credit institutions created by the project largely depends on appropriate arrangements for repayment of loans and for subsequent rounds of lending". This is a rather simplistic viewpoint, as governance, capacity and funding issues, as well as lack of supervision, often threaten the sustainability of a FSP, especially when it is newly created.

239. Therefore, the availability of data on the financial performance of FSPs varies remarkably, with most projects providing information on sustainability without any supporting financial data. For example, in #25 Uruguay, the "sustainability" concept is given limited treatment: it is simply stated that the local credit committees continue to operate and that the other stakeholders have also committed to continue providing financial services to the rural poor.[153]

240. On the other hand, detailed datasets, such as those as available for Georgia and India, can provide meaningful information about the level of sustainability. For example, in India, the project (#18) used the CGAP sustainability indicators to track the progress of the partner MFIs.[154] In Georgia, the analysis conducted during the CSPE (2018)[155] years after the project (#22) [156] closed made it possible to identify changes in the growth and performance of MFIs' portfolios. The institutional health of MFIs has improved, and operating and administrative costs have been reduced.[157]

241. Offering a broader range of financial products has been an important factor in enhancing sustainability. For example, products such as risk coverage for enterprises and insurance for smallholders were important in #13 Moldova, because they helped to ensure repayment, thereby leading to a healthier loan portfolio. The outstanding portfolio of loans at risk is less than 2 per cent. Furthermore, it enabled the banks to expand their lending portfolio in rural areas.

242. In other cases, sustainability was assessed as low. For example, in #1 Belize, high loan delinquency led to financial losses and may have forced the IFIs to stop their microcredit operations. Here, the provision of assistance by new structures without an apex institution responsible for organizational and funding support meant that the structure built was unsustainable from the outset. The lack of an apex institution was also named as a factor preventing sustainability in #46 Lesotho. In #45 Cameroon, the apexes were not functioning to ensure the sustainability of the

[153] In the case of Uruguay, the rating of 5 in sustainability must be seen as an indication of overreporting, at least if rural finance cannot be traced separately.
[154] The target, as set at design, was that of the 90 partner MFIs, at least 3 per cent of the targeted MFIs should have reached Level 4 sustainability; at least 28 per cent of the targeted MFIs should be at Level 3 sustainability. At completion, the project had exceeded its targets, with 15 per cent out of the 131 partner MFIs reaching Level 4 sustainability, and 28 per cent of them Level 3 sustainability.
[155] The analysis draws upon a working paper prepared for the 2018 CSPE.
[156] It should be noted that the PPA (#22) had rated sustainability as moderately satisfactory (only).
[157] Operating and administrative costs, the biggest expense item for four MFIs, declined by 3.3 per cent over loans outstanding, over the period during which MFIs participated in RDP, from an average of 16.9 per cent in 2009 to 13.6 per cent in 2016. The average cost of funds for lending declined marginally, by 0.3 per cent. The loan portfolio growth of these MFIs thus helped them to become more efficient; however, these gains were not (yet) considered to be sufficient to pass on to clients.

FSPs, and the capacities of the cooperating Ministry of Finance were too weak to address issues of budget, staffing and regulatory framework.

Key points

- The projects reviewed by this ESR were designed under the 2000 Rural Finance Policy; however, many of them already reflected the thinking of the 2009 Policy, which represented the state of the art at that time.
- The policy principles, although valid, were found to be excessively ambitious for many of the situations in which IFAD works, in particular with regard to the variety of financial services, the use of demand-driven and innovative approaches and the ways to balance sustainability and poverty outreach.
- The projects responded well to the overall opportunities and challenges of national policy frameworks, but not necessarily to financial sector policies. IFAD's programmes have yet to align with NFISs.
- Projects often performed better where they involved meso-level funds managed by apex organizations. LOCs are the most common financial instrument; however, their effectiveness was mixed. LGFs were found in less effective projects.
- The most common FSPs were CBFOs; although their performance varied, they were usually associated with positive gender results.
- Credit unions performed well where they had a historical presence and received political support, but they were less effective in the outreach to women.
- Small financial institutions often met challenges in reaching out to the poorest people. Very few projects managed to put into place mechanisms to make financial services accessible to the very poor.
- A major factor limiting the growth of credit groups, SACCOs and NGO-MFIs was the lack of adequate support, e.g. through apex structures.
- State banks suffered from institutional inefficiencies, conflicts of interest or conflicting programmes; however, they were often capable of good outreach to IFAD's target groups (women, poor smallholders). Commercial banks, on the other hand, were not successful in reaching out to poor smallholders.
- Supporting finance for MSMEs requires clear segmentation of this highly diverse group. Including business development services and support to FSPs in one component may present challenges, as the approach and type of service providers differ considerably.
- Evidence on poverty impact is scarce. A general observation that may be drawn on the basis of the sample review is that the combination of financial and non-financial services, such as institutional capacity building and training (including financial literacy), contributed to positive poverty impact. Savings evidently had a positive poverty impact, as also shown by other impact studies.
- Stand-alone IFS project that worked on the micro, meso and macro levels were able to achieve better impacts at institutional, sector and policy level. Yet, only very few projects contributed to policy-level changes, and those that did often worked in close partnership with other development partners.
- Institutional sustainability is difficult to assess because time is needed for FSPs to become financially sustainable beyond project closure. Important factors influencing the institutional sustainability of FSPs are the presence of a supporting policy and regulatory framework, as well as a functioning apex structure.

V. Lessons, opportunities and limitations

243. The lessons from this ESR are presented in three parts. The first part, (A), presents the operational lessons, challenges and limitations arising from the review of IFAD operations. Part (B) presents wider lessons on IFS financial instruments, including those drawn from other studies. Part (C) illustrates the lessons that may be learned from the application of innovative approaches, exploring the possible future directions in agricultural finance.

A. Operational lessons, challenges and limitations

244. This section presents the lessons learned from the review. The main lessons can be summarized as follows:

- The three-level approach can work for stand-alone financial service projects.
- Simple approaches are better: IFAD's strength in supporting IFS on the ground lies in its work at the micro level with smaller FSPs, such as CBFOs and MFIs.
- Market–based approaches are key for sustainable financial service provision; however, cost-covering interest rates can be difficult to implement in government-led projects.
- Matching grants are a one-time support instrument. Yet, there is no evidence that matching grant approaches facilitate links with the formal financial sector for sustainable access to finance beyond project support.
- LGFs can motivate financial service providers to lend to target groups receiving business development support. However, setting up an LGF requires a high level of technical knowhow and sustainability is a key challenge, because it requires a sound system, full funding and a long-term perspective.
- VCF can offer financial solutions for small and very small producers that are part of a VC. The diversity of segments in VCF, however, requires very different approaches to serving the poorest and the SMEs, thus adding to the complexity of the design.

245. The detailed lessons are listed in table 6.

Table 6
Operational lessons, challenges and limitations

Lessons on what works	*Challenges and limitations*
A holistic financial-sector development approach at three levels can work well for stand-alone IFS projects.	This is much more difficult to implement for components that are designed for a targeted region, with a specific group of beneficiaries and selected VCs. For most IFAD projects with a rural finance component, engagement at the three levels of the financial system is very difficult, or even impossible to implement.
Financial services other than credit are demanded by the target group, and are important for the growth of formal FSPs.	The transition to new types of financial services is often hindered by governments' unwillingness to invest significant shares of project funds (based on loans) in technical assistance, market studies or capacity-building.
A market-based approach – including charging cost-covering interest rates for agricultural investments – is a key element in sustainable financial service provision.	It is much more difficult to gain the support of policymakers from the agricultural sector. Loans for agricultural investments are difficult to realize in practice – that is, for example, it is difficult to find an FSP interested in and able to offer such products.
Simple approaches work better. IFAD's strength in supporting IFS on the ground lies in its work at the micro level with smaller FSPs, such as CBFOs and MFIs. These types of FSPs are generally more open to serving the poorer people among IFAD's target group, and they are often the only FSP that can be found in remote and rural areas.	Often, the type of FSP that is willing and able to serve the target group in the region is not allowed to provide such services, nor are they capable of doing so. Significant investments in organizational development would be required before such services could be feasible from the supply side. Ensuring that a range of innovative financial services and a diversity of financial products are available is not feasible

Lessons on what works	*Challenges and limitations*
	with simple and often unregulated types of FSP.
Meso-level organizations	
Apexes, including meso-level funds, are an interesting entry point for IFAD support, where the commercial banking sector is underdeveloped or underrepresented in rural areas. Well-established apex organizations can provide effective services and funding to FSPs.	Meso-level funds without links to existing institutions take a long time to perform. Project management offices usually do not have the expertise required to manage funds. Where micro-level institutions have taken over meso-level functions, there must be a clear exit strategy, to ensure that the fund remains available in the sector after project closure.
Pro-poor targeting and inclusion	
Graduation helps to move people out of extreme poverty by developing income-generating activities and building assets.	Non-financial interventions of the project are usually targeted to certain groups and regions, which makes a demand-led approach for rural finance difficult. The project concept and government's interest ultimately drive "demand". Focusing on very small loan sizes, or on a certain industry, sector (e.g. tea farmers, cocoa production) or target group (e.g. women, youth, smallholders) that is new to finance or lives in remote areas, or cannot pay for cost-covering, can create several challenges for an FSP that needs to focus on covering its costs.
VCF can also offer financial solutions for the poorer people. Linking financial institutions to the poor in the VC, offering financial services to support the product flow and building on the established relationships in the chain are also beneficial for the productive poor in a VC.	The diversity of segments in VCF requires very different approaches to serve the poorest as well as SMEs, which makes design more complex.
Innovations	
On the demand side, digital finance allows financial services to reach more remote populations at a lower cost, and requires strengthening literacy levels. On the supply side, new types of digital finance providers are emerging that can be used to leverage financial services to more remote regions.	Trying to introduce innovations throughout a country without involving other donors entails the risk of IFAD's limited resources being scattered geographically. The increasing digitalization in the financial sector poses a challenge to both supply and demand, as well as the regulatory environment. Despite the availability of digitally provided financial services, low usage is a concern.
Sustainability	
The shift towards market-driven and sustainability-focused approaches can be observed in many projects, documents and expert fora and is generally accepted as a principle and as representing the state of the art within IFAD and among its partners.	The long-term sustainability of an FSP in a rural area may not be secured if project interventions are limited and not continued by permanently available apex structures and services, such as training, funding and controls.
Strategies that support the sustainability of FSPs include establishing apex organizations that promote mergers of smaller FSPs operating in the same geographical zones, and supporting MFIs to keep their operational and transaction costs under control so that they are able to carry out self-sustaining operations. Such strategies help to ensure that financial institutions have the internal capacity to design and roll out new products while building their capacities.	Establishing apexes is costly and usually cannot be shouldered by an IFAD project alone. Collaborating with other development agencies would be necessary. Investments in the institution-building of apexes may not be a funding priority of governments.
Sector and policy impacts	
Effective engagement of IFAD in policy dialogue requires appropriate capacity to be in place.	To be effective, local expert presence is needed and confidence/trust with policymakers must be established. Projects and advisers must be seen as being able to understand the constraints and contribute to solutions

Lessons on what works	Challenges and limitations
	without being dogmatic, as well as to manage sensitive policy areas such as potentially conflicting goals (e.g. charging cost-covering interest rates for agricultural lending).

B. Lessons for IFS policy and strategy

246. The ESR has highlighted the variable performance of IFS instruments and the limited use of innovative instruments and approaches. As discussed in chapter III, IFAD has promoted a wide range of instruments and approaches over the past 20 years, but the results and the lessons learned from implementation have not yet been systematically assessed. This limits the ability to draw wider lessons on the future focus and direction of rural finance in IFAD.

247. Furthermore, broader issues within IFAD's approach to IFS, are mainly addressed in the context of individual project designs, but are not resolved at corporate level: for example, the debate on stand-alone IFS projects versus IFS components, or IFS in VC projects that require an approach integrating financial and non-financial support. These issues call for a systematic assessment of how finance and non-finance support should be linked in IFAD operations.

Lessons to be learned on financing instruments

248. **Credit lines.** Technical guidance compiled by IFAD in 2009 and 2014 provides orientation on when and how the use of LOCs is appropriate, and what to avoid, for example governments directly managing LOCs, a practice that IFAD abolished in the past decade. LOCs are recommended under specific circumstances, for example when liquidity is clearly lacking and professional fund managers can be hired or are already in place. This policy position of IFAD is clearly based on international good practices, in which the emphasis has shifted away from providing credit, which was the focus in the 1990s, to an inclusive finance perspective that examines the full picture of what clients may need and can absorb, as well as what the market may require.

249. An AfDB evaluation synthesis also cautions that LOCs, although often efficient, may be biased against smaller FSPs, thereby reducing the potential for additionality.

Box 18
Lessons on LOCs from AfDB

Line of credits (LOCs) positively contribute to the performance of IFIs' portfolios by increasing their margins and reducing risk, which also creates strong internal incentives in favour of LOCs. LOCs can be more cost-effective than other instruments because they allow the packaging of a large amount of financial aid into a limited number of operations that are then channelled through existing institutions that do not require the setting-up of separate administrative systems. However, there is a trade-off between LOCs efficiency, and the rigour of eligibility criteria and oversight requirements. Disbursement of LOCs is more rapid when eligibility criteria are broader. The selection of client FIs is driven by a need for fiduciary integrity, due diligence, and credit-risk considerations. This has typically led to the prioritizing of top banks and more developed financial systems, thereby reducing the potential for LOCs additionality. The tightening-up of eligibility criteria and controls can significantly slow down the delivery of LOCs.

Source: AfDB/IDEV. 2018. Do Lines of Credit attain their development objectives? An evaluation synthesis 2010 – 2017.

250. **Purpose-oriented funds.** There has been a proliferation of purpose-oriented funds in many operations and countries. The huge variety of national funds, especially, calls for a deeper analysis of what works. In a similar vein, a topic also emerging within IFAD is the issue of special funds that operate as "development financing instruments". These are global or regional funds that provide financing for a specific purpose or certain client groups, for example SMEs, and are professionally managed and established under a national legal framework and with

clear governance structures. For example, the new Agro Equity Impact Fund for Uganda, worth EUR12 million, which was launched by IFAD and jointly funded by several agencies;[158] or the newly created Agri-Business Capital Fund (ABC Fund), expected to provide support for 270 million smallholder farmers and SMEs. Participation in these undertakings (also called blended finance) will generate important lessons for IFAD in the future.

251. **Blended finance for financial inclusion**.[159] The new ABC Fund (see section C below) was created in IFAD to address the enormous demand for finance in the private sector. A debate is required about the role of this instrument, and possible national, regional or global engagements for IFAD. "Blended finance" is a mechanism to attract private investors from local and international sources. The background is that for implementing the SDGs, and closing the huge financing gap globally, new mechanisms were required. As stated by CGAP, donors and development finance institutions are encouraged to use their funding to crowd in private capital, but, also, to continue to address the underlying constraints faced by financial services markets or certain populations. CGAP suggests how development finance institutions can optimize their impact, for example, to leverage existing funds and facilities and avoid reinventing the wheel (by using existing apex funds, perhaps with capacity-building measures), or to promote and implement responsible investing, also called impact investment,[160] (by means of special funds that are based on social and environmental performance criteria or that finance climate-sensitive investments). Funders have been increasingly considering this approach to fill the enormous funding gap of US$5.2 trillion identified for SDG implementation, which is said to be as much as 1.4 times the current level of MSME lending.[161]

252. **Matching grants** are increasingly used to cofinance productive assets and investments; in fact, there seems to be a tendency to overuse this instrument. A key question is whether matching grants merely bridge immediate funding gaps or instead, as stated, they generate sustainable access to finance. While guidance is available, and some evaluative insights have been generated, there is little evidence on the way matching grants are used in practice and what lessons were learned in implementing them in the past few years.

253. In 2012, a joint IFAD and FAO study conducted a review of 14 matching grant projects (7 were from IFAD and 7 from the World Bank). It clearly states that matching grants are acceptable as "an interim solution to co-finance productive investments if they can play a complementary or triggering role in opening financial institutions". However, it also found that matching grant schemes are not properly designed and that the implementation arrangements need fine-tuning.

254. In 2016, the World Bank implemented a study considering the lessons learned from 106 projects (see box 19 below).[162]

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[158] https://www.ifad.org/en/web/latest/news-detail/asset/39260810.
[159] https://www.cgap.org/research/publication/navigating-next-wave-blended-finance-financial-inclusion.
[160] According to the Global Impact investing Network (GIIN), "impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." CGAP Brief, *Where Do Impact Investing and Microfinance Meet?* (CGAP, 2013).
[161] https://www.smefinanceforum.org/data-sites/msme-finance-gap.
[162] The study reviewed 106 projects with matching grants across sectors, mostly focusing on projects that sought to promote development of SMEs and that used the matching grants mainly to provide advisory services to targeted SMEs. To understand the role of matching grants in agricultural projects, 21 projects were considered.

Box 19
Lessons from the World Bank study on matching grants

A matching grant should target specific investments and types of beneficiaries, particularly those with limited access to finance; by the end of the project, however, banks and financial institutions should be familiar with these investments and types of beneficiaries and should continue providing financial services to them.

Beneficiaries' contribution must be set high enough to ensure ownership and to crowd in commercial credit.

Matching grants should aim to finance longer term investments, particularly with sufficient environmental and social externalities, and capacity building/advisory services for farmers and agricultural SMEs that require longer-term funds.

Source*:* World Bank 2016. How to make grants a better match for private sector development.

Rural finance as a stand-alone project or as a project component

255. The ESR has shown that stand-alone rural finance projects that are active on all three levels of the financial system have led to better institutional, sector and policy impacts. In some regards, lasting structures and offerings in the financial sector have been created with IFAD's support, such as the contribution to the rapid growth of clients in the MFI sector in Ethiopia (RUFIP, CPE 2015), or the creation of the Apex Bank and rural bank regulation in Ghana.

256. The review of the IFS sample showed that both the absolute and the relative size of rural finance funding were the most significant determinants for good projects and results and impacts; on the other hand, the review found that projects with a rural finance components do not perform better than others. Positive impacts at institutional, sector and policy level were only found in stand-alone rural finance projects (#18 India, #08 Ghana, #13 Moldova and #19 China). Among the rural finance component projects, only #25 Uruguay reported similar impacts, albeit with limited evidence to support these claims.

257. **Global trend towards combined projects**. In IFAD, there is a trend to include IFS as a project component. This trend can also be observed at global level, despite overall increasing funding amounts. The number of projects with financial inclusion as a component has increased from 10 per cent in 2012 to 33 per cent in 2016, confirming the expectation that financial inclusion drives development. Global data on how much financial sector development support consists in stand-alone projects and how much is run as components is not available; however, other development agencies, such as the German Development Cooperation, also have far fewer stand-alone financial sector development projects compared to some years ago. According to CGAP and its Funders Survey 2017, many funders view financial inclusion as an enabler of the SDGs, and not as a stand-alone goal in itself. They are increasingly integrating financial inclusion objectives into projects that focus on economic growth, women's empowerment, agriculture and other development objectives. Apparently, for many funders, the approach is to return to a combined approach of projects with financial and other non-financial support services.

258. **Advantages of stand-alone rural finance projects.** Stand-alone rural finance projects have a series of advantages, mainly related to: the focused strategic approach to finance; the counterparts, which are concentrated on the financial sector; the visibility vis-à-vis government and private partners; the potential for collaboration with other development programmes partners; the PMUs with fully dedicated financial experts; and their significant role and contribution at sector level.

259. Stand-alone projects:

(i) are well suited to implement a systemic approach, i.e. they have a better potential to support macro- and meso-level interventions, as usually they are not designed for a certain region and can therefore concentrate on overall sector issues such as a national strategy, regulatory issues, wholesale or apex institutions, which helps to create lasting structures in a financial system;

(ii) can collaborate with other donors engaged in the financial sector and cofinance such activities, which will give both interventions more weight and potential for creating lasting impact (as occurred in India and Ethiopia);

(iii) are more flexible in addressing sector-wide bottlenecks that hinder financial service provision more generally, and not only for a targeted group in a certain project area;

(iv) can be used for advancing knowledge creation in the country and for IFAD more generally, collecting lessons from various projects or even other countries, and documenting lessons; and

(v) can be expected to push the overall financial inclusion agenda further in a market, by contributing to the NFIS or another financial sector agenda.

260. The stand-alone approach can also create new challenges. For example, it can be more difficult to achieve measurable results in terms of changes at household or enterprise level, as shown in this ESR (see section E on impact). Another challenge can concern coordination between ministries, e.g. between the ministry of finance and the ministry of agriculture; conflicting agendas can be difficult to manage, for example regarding interest rates for wholesale or retail loans, or new institutions or schemes that would need to be established. Importantly, stand-alone rural finance projects often do not interact with other projects; therefore, the expected synergies are not being achieved.[163]

261. In a country where several IFAD projects are engaged in the financial sector, e.g. India, Kenya or Mozambique, a systemic approach supported through a stand-alone rural finance project can effectively address the structural issues affecting all projects and create sector benefits, such as a digital finance regulation, a nation-wide credit bureau or credit guarantee organization. However, this would also mean that the other projects use, or at least closely coordinate with, the dedicated IFS project, and do not implement a parallel and potentially uncoordinated, or perhaps even conflicting, structure.

C. Lessons on innovation and future directions in agri-finance

262. **Focus on VCs and the private sector.** The GPFI stresses the importance of VCs as a key ingredient for growth and scale in agricultural finance.[164] IFAD's growing focus on VCs is reflected in its strategic documents and portfolio. In 2010, VCF moved to the core of IFAD's thinking, a significant portfolio in VCF having been established.[165] The IFAD Technical Note titled "Agricultural value chain finance strategy and design (2012)" provides important insights on VCF.[166] Engagement with a wide range of stakeholders in VCs, including the private sector, led to a critical reflection on financing instruments.[167]

263. The increasing importance of VCs is also reflected in IFAD's move towards strategic partnerships, such as the global SAFIN Network, and innovative instruments, such as the newly established Agribusiness Capital Fund (ABC Fund, formerly SIF[168]), which has an explicit focus on smallholders and youth, the missing middle and impact investing.

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[163] See, for example the Kenya CSPE (2019), which comments on the missing linkages between PROFIT, as a standalone IFS project, and the value-chain projects.
[164] GPFI, note 37.
[165] Scaling-up, Brookings report 2010.
[166] The guidance points out the various categories of financial instruments commonly used in agricultural VCF, such as product financing, receivables financial or risk mitigation products or financial enhancements, and describes 16 AVCF instruments of which, generally, several are used in an intervention.
[167] The self-assessment included in the value chain guidance highlights challenges in implementing state-of-the-art financing instruments, for example the absence of appropriate guidance and monitoring tools and limited staff capacities.
[168] Small and Medium-Sized Enterprise Investment Finance Fund.

264. The ABC Fund, as an IFAD-driven and global impact fund for smallholder and SME finance, aims to target the “missing middle” and other key actors within the agriculture VC with potential for growth, with a focus on young entrepreneurs and Africa. The initial aim to raise US$60 million in grant funding to be structured as first-loss equity. Anchor investors are the European Union (US$45 million), the Government of Luxembourg and the Alliance for the Green Revolution in Africa (AGRA), that have committed EUR 5 million and EUR 4.3 million respectively. The ABC Fund is expected to attract senior and mezzanine debt of US$180 million. Its mission is to address the large gap that remains between supply and demand for investment in smallholder agriculture and rural finance.

Box 20
The IFAD ABC Fund design

In coordination with the ABC Fund manager (Bamboo Capital Partners of Luxembourg, and Injaro Investments in Ghana and Cote d’Ivoire), IFAD will provide the ABC Fund with investment opportunities that leverage IFAD’s presence on the ground, sector expertise, and experience in building multi-stakeholder partnerships. It operates in three pillars. In pillar 1, the ABC Fund will target farmers’ organizations and SMEs that require investments in the range of US$25,000 to US$1 million, based on direct debt financing and financial intermediation. Equity investments can be made later in the process, subject to investees’ track records. Pillar 2 is a first-loss equity operation to de-risk portfolio investments and leverage additional non-concessional or commercial funds amounting to about three times the size of the initial funding. Pillar 3 is a Technical Assistance Facility that will provide pre- and post-investment assistance to existing and potential investees, advisory services that will allow farmers’ organizations and SMEs to access new opportunities for business development and incubation of prospective creditworthy clients.[169]

Source*:* IFAD Up-date on the Agribusiness Capital Fund (2018) and Agra.[170]

265. These are recent undertakings, and lessons from implementation are still to be learned. New national instruments are also being conceptualized and implemented, for example the Impact Investment Fund in Uganda, that is to provide funding to agriculture-related businesses across all VCs.[171]

266. **Regional initiatives**. The ESR found an increasing wealth of lessons emerging from innovative practices, which is still being processed. The Asia region has been at the forefront of introducing innovative practices, such as insurance, remittances and Islamic finance (see regional dashboard, annex V). The ongoing studies on good practices are therefore timely (see box 21 below).

267. The IFAD-APRACA Learning Project on the documentation of best practices in rural finance in five Asian countries, titled “Pro-Poor Rural Financial Services in Developing Countries” (Rural Finance Best Practice, RuFBeP) has been generating knowledge on agricultural innovation and agricultural VCF. An initial study conducted in five Asian countries (2016)[172] highlights “that more efforts should be given to promoting agricultural chain finance, which involves financing within the chain and from outside the value chain but fitted to the nature of the value chain and actors involved.” The Asian case studies have generated recent knowledge

[169] CLE IFAD’s financial architecture: 2018 Monitorable action 6 for IFAD11 focuses on developing a strategy for private-sector engagement and developing the ABC Fund, formerly SIF. Recognizing that working with the private sector may require a greater appetite for risk, the Financial Operations Department is working with the Programme Management Department on the introduction of ABC in order to support considerations that improve its financial sustainability, while Management is taking steps to mitigate risks with the vehicle’s design, governance and recruitment of professional fund managers, currently under way. It is estimated that, at least initially, roughly half of the resources may be invested through financial intermediation for the smallest deals.
[170] Agra: Growing Africa’s Agriculture, “IFAD welcomes the European Union’s commitment to a new impact fund targeting small agribusinesses across emerging markets” 18 December 2018. https://agra.org/news/ifad-welcomes-the-european-unions-commitment-to-a-new-impact-fund-targeting-small-agribusinesses-across-emerging-markets/.
[171] IFAD, “New €12 million Agro Equity Impact Fund for Uganda launched”, 23 January 2017. https://www.ifad.org/en/web/latest/news-detail/asset/39260810.
[172] IFAD and APRACA. *Bringing Inclusive Rural Financial Services in the Asia Region to Centre Stage: Cases of Good Practices from China, India, Indonesia, Philippines and Thailand* (Bangkok: APRACA, 2016).

based on implementation experiences or rural and agricultural finance pilots. Notably, the study also highlights the scaling-up of these experiences in other environments, and their adjustment and adaptation to the local political, economic, social and environmental circumstances of the areas where they are intended to be introduced or replicated. Geographic and regional diversity, with its unique cultural, social and economic values, should be considered when considering scaling-up exercises.

Box 21
Insights from APRACA-IFAD pilots in agricultural and rural finance in three Asian countries (2018 study)

In **China**, challenges included establishing buy-in and commitment to the pilot from the bank partners, devising strategies to include small operators in VCF and sustainability beyond the project. Four new products were designed by a rural commercial bank to target these clients: cash-flow-based lending, a group guarantee loan, an insurance combined loan and a mixed guarantee loan.

In **Indonesia**, anticipated challenges centred on the capacity of MFIs to implement new lending products, farmers' capacity to modify farming techniques to increase production, farmers' gaps in financial literacy, and adjusting to unpredictable market fluctuations. Project implementation revealed additional challenges, including limited capital of MFIs, which resulted in an inability to expand outreach to other beneficiaries, restrictions of a cooperative's activities based on its legal status and operational challenges related to outdated administrative procedures used by the MFIs.

In the **Philippines**, key challenges included the need to strengthen the business, management and accounting systems of the MFI partners, the need for additional capital to extend loan terms, the sustainability and expansion of piloted practices beyond the project, and poor road conditions making transport of goods difficult. An agreement between corn farmers, the local cooperative bank and a hybrid seed corporation was key for guaranteeing the market for the farmers' produce and a better price, all of which ensured loan repayment. The Philippines chose to pilot agricultural VC financing modelled upon onion farmers' experience. The scheme was piloted in two provinces with local implementing partners: a Cooperative Bank, and the Seeds and Fruits Multi-Purpose Cooperative. The project was structured around four main components: capacity-building for small farmers, financing, crop insurance and credit guarantee schemes and market linkage.

Notably, the study emphasizes that as opposed to earlier generations of rural finance programming, the implementing institutions are directly providing financial services.

Source: IFAD, *Reaching rural households and communities by advancing inclusive financial practices (2018): A synthesis of pilot project implementation processes in China, Indonesia and Philippines* (Rome: IFAD, 2018).

D. Strengths, weaknesses, opportunities and limitations

268. The feedback obtained through the ESR survey raised many observations and lessons that are in line with the findings from the synthesis. It highlights the importance for IFAD to critically review some of the current practices and strengthen cooperation with capable partners. The strengths, weaknesses, opportunities and limitations (SWOL) for IFAD, as expressed in the survey, are summarized in table 7 below.

Table 7
IFAD's SWOLs (according to feedback from survey respondents)

IFAD's strengths	**IFAD's weaknesses**
Outreach to remote rural areas	Targeting often not effective
Supporting CBFOs and MFIs	Trickle-down effects often not happening
Capacity-building for FSPs	Weak capacities of PMUs
Capacity-building for smallholder farmers	Limited ability to adapt to changes in local context
Promoting good practices	Limited partnerships
Projects as learning spaces	Country politics influencing project designs
Flexibility during implementation	Overambitious timeframes
Microfinance	Lack of attention to due diligence
	Consultants not being aware of the local context
	Having agricultural ministries as the main partner
	Complexity of design
	Insufficient attention to sustainability issues
What IFAD should do more (opportunities)	**What IFAD should do less (limitations)**
Promote savings culture and insurance schemes	Technical assistance for direct beneficiaries
VC approaches, in cooperation with other partners	Pressure to lend money
Performance-based agreements with FSPs and meso-level institutions	Unrealistic assumptions about government decision-making
Leveraging existing rural postal networks	Support to policy and regulatory frameworks
Financial literacy and use of digital instruments	Having finance and non-financial support in one component
Support MFIs and cooperatives	Support to state-owned banks
Linking agricultural loans with non-agricultural activities in the rural sector	Supporting community financial services without a perspective of linking them to formal institutions
Mobile banking	Creating financial funds operated by private institutions or the social sector
Strengthen governance at institutional and national level, in partnership with global and regional networks	Matching grants
	Blended finance
	Guarantees or risk sharing facilities without first providing technical assistance
	Building stand-alone MFIs or FSPs
	Credit funds for specific groups
	Policy development
	Government running finance and lending institutions

Source*:* ESR survey.

269. Many of the observations voiced by the respondents to the survey are confirmed by the findings of this ESR. We would be more cautious in mentioning capacity-building for FSPs as a "strength", however, because those interventions are often not well documented or assessed. The availability of meso-level institutions that would be capable of multiplying IFAD's support in capacity-building is noted as a gap in many regions. Promoting good practices is an important aspect, but this would also require additional efforts to build the evidence based on IFAD's own good practices.

270. Among the opportunities named by the respondents that were also found to be important in the ESR, were increased attention, in particular in promoting a savings culture, insurance schemes and VC approaches. The limitations are also valid. However, it must be acknowledged that blended finance approaches are still new in IFAD; this will require further analysis on how to integrate these instruments into operations, as well as capacity-building within IFAD. Credit funds for specific groups may come with caveats, as the review of the sample has shown.

Key points

- Stand-alone rural finance projects active on all three levels of the financial system have led to better institutional, sector and policy impacts.
- The absolute and relative size of rural finance funding were the most significant determinants for strong project results and impacts.
- Market-based approaches are key for sustainable financial service provision, but challenging to implement in government-led projects.
- Matching grants can be part of an exit strategy if they integrate the accumulating part of the income from the outset, to compensate for the funding gap.
- Setting up loan guarantee funds requires technical know-how, and sustainability is a challenge because it requires sound systems and longer-term funding.
- The diversity of VC actors requires differentiated approaches to servicing, for example, both the poorest people and SMEs, thus adding to the complexity of the design.
- Credit lines are still the most common instrument in IFAD operations, but lessons from the ground are not documented.
- The great variety of national funds calls for a deeper analysis of what works.
- Matching grants are commonly used to bridge immediate funding gaps rather than to generate sustainable access to finance.
- The ABC Fund is an innovative instrument to target the "missing middle", and other key actors within the agriculture VC with potential for growth.
- New instruments and approaches are being tested in the regions. However, the unique cultural, social and economic values should be considered when thinking about scaling up.

VI. Conclusions and recommendations

A. Conclusions

271. Inclusive financial services are seen as instrumental for achieving IFAD's agenda on rural poverty reduction. Since 1981, IFAD has committed US$3.4 billion (17.7 per cent of its total commitments) to inclusive financial services, within 506 projects. In 2007, IOE conducted a CLE, which identified major shortcomings in the implementation of IFS projects. The subsequent IOE thematic evaluations of rural finance (on Eastern Europe and China) brought up important insights from implementation. The CGAP Smart Aid assessment (2009) identified further institutional and operational bottlenecks and opportunities. In response to these evaluations and assessments, and to global trends and lessons, IFAD prepared a revised Policy (2009) and adjusted its systems to enhance design, quality assurance, and monitoring and evaluation of IFS projects. A strong focus on knowledge and learning, internally and through partnerships with other international players, was intended to strengthen innovation and performance in IFS operations.

272. This ESR has reviewed the achievements and results, both at institutional and at operational levels, based on existing evaluative evidence, studies and feedback from internal and external stakeholders. **The conclusion is that, while IFAD has gone a long way since it adopted its revised Rural Finance Policy in 2009, many of the recommendations still remain valid and will require further efforts to be fully addressed.** More specifically, this synthesis report has identified, as a key bottleneck, the limited technical capacities to effectively implement the systems in place with regard to knowledge and learning, quality assurance and evaluation follow-up. Similar bottlenecks exist on the ground, where the technical ambitions of the Policy are hindered by the contextual realities and the limited capacities in place.

273. **Over the years, the aspirations of the IFS policy, strategy and guidance have been rising in line with the changing global context.** The accelerating pace of development in partner countries requires increasingly complex approaches, constant upgrading of knowledge and highly technical expertise. The IFS guidance developed over time has shown continuous progress and a deepening understanding of IFS concepts. However, while considerable efforts have been made to absorb international state-of-the-art knowledge, this has not equipped IFAD staff to better address the challenges on the ground. IFAD's focus on financial services for the rural poor, remote communities, smallholder farmers, women, youth and MSMEs comes with very specific challenges, which differ somewhat from those of most other development agencies. While efforts to bring international good practices to IFAD were commendable, insufficient attention was paid to systematic analysis and documentation of practices in IFAD's own projects. Knowledge gaps exist on recent or niche topics, such as leasing and VCF, regarding which IFAD has little technical guidance and hardly any lessons drawn from implementation. A major obstacle to lesson-learning is that this often relies on grants or other niche financing opportunities, resulting in an eclectic range of knowledge products.

274. **IFAD has the systems in place to ensure high-quality project design, but these have to be matched with adequate technical capacities.** IFAD has established systems for tracking quality issues arising from the review of project designs and for following up on evaluation recommendations derived from the review of completed projects. Both systems could be more effectively used to ensure policy coherence and learning from good (or bad) practices, if there was sufficient technical capacity to enhance the quality of the review. The depth, quantity and quality of both the PRISMA and QA comments were found to be variable, and reference to the Rural Finance Policy principles was rarely made. Yet, these would be critical to feed lessons back from implementation and ensure that

good practices and institutional learning are consistently adopted across the whole of IFAD. Furthermore, quality and state-of-the art project design cannot be delegated to external consultants only. In this respect, there is a yawning gap in terms of technical expertise at the headquarters, as the FAME team, as a knowledge and innovation hub, has been dissolved.

275. **Although required by the Rural Finance Policy, innovative and more diverse financial services are not commonly used in IFAD projects.** At design stage, many projects envisaged the use of innovative approaches, services or products, but they were later dropped or, if implemented, performed poorly, as shown for the examples of leasing, equity funds and guarantee funds. In practice, credit lines are still most commonly used, not because they deliver better results, but because they are relatively straightforward to design and manage and hence in-demand by IFAD member countries. Innovative and more complex approaches, on the other hand, require specialized knowhow, which may not be available on the ground. Where PMUs are able to hire competent local rural finance expertise, the issue may be resolved. However, in most cases, the limited capacity on the ground is a serious constraint for innovation in the financial sector. Similarly, the holistic (three levels) approach, stipulated by the Rural Finance Policy, has not been commonly applied because it requires significant dedication, knowhow and funding and is only feasible in large stand-alone IFS projects with strong implementing partners and intensive technical backstopping provided by IFAD or its consultants.

276. **IFAD's business model also steers the demand for rural finance at national level**. IFAD's business model, which is based on sovereign loans, sets incentives for governments to favour loans and credit lines. When loans become more expensive, governments are likely to favour investments in areas that directly generate returns for loan repayment. Some countries even avoid using loan funding for technical assistance or grants. This also explains the strong focus on credit lines and loans. There is a fundamental dilemma in countries with more developed financial sectors and a demand for more diverse and innovative financial products. In these countries, projects are hard-pressed to provide the technical assistance and capacity-building needed for a more sophisticated approach. Although public sector partners may recognize the significance of inclusive financial services, they often have neither the technical knowledge nor the systems and capacities in place to push efficient strategies, regulate the sector and implement policy measures that would make a lasting impact in the financial sector. Access to finance can only evolve within an enabling policy and regulatory environment, but changes often take years and also require the private sector to invest and be present in rural areas.

277. **The limited capacities of FSPs need to be addressed at the meso level**. While meso-level organizations have been frequently used, IFAD has paid insufficient attention to the strategic role that apexes can play in ensuring outreach and sustainability of local FSPs. IFAD's efforts to accompany the formalization of FSPs (e.g. Ethiopia, Mozambique) have not been successful and creating institutions from the scratch has generally been disappointing (e.g. Nepal, Georgia). The common duration of projects (from four to six years) was often too short to achieve solid results, and both the outreach and sustainability of the secondary-level institutions were insufficiently secured. Projects that have worked with existing meso-level organizations (apexes) were generally more successful in delivering sustainable results. A major constraint is, however, the lack of capable and sustainable meso-level institutions that can provide financial and technical support to building FSPs. Establishing apexes is usually costly and would require substantial technical assistance over a longer period – activities that would call for further collaboration with other development partners.

278. **Within a rapidly changing global environment, IFAD requires adequate capacities at all levels to retain its leading role in IFS**. Globally, the term

"rural finance" has disappeared. The IFIs are redirecting their approaches to agricultural finance and inclusive finance. It is unclear how IFAD will contribute to this debate in the future. As noted, dismantling the rural finance team has left a vacuum in terms of technical expertise and capacity at the Fund's headquarters. It is unclear if and how IFAD's engagement in the various global networks can be maintained at the same level of technical input and visibility as in the past. IFAD has to act fast to remain at the centre of rural development, to inspire others and be inspired by others. It has to adapt its policy and communication approaches to maintain its strong role and continued presence in the field, and to continue harnessing global networks for its regional strategies and knowledge development. There will be a greater need to enhance capacity at all levels and engage in new ways with policy processes on the ground, and less need to lend funds through governments.

B. Recommendations

279. The synthesis report has found that the two most important issues are: (i) a lack of consideration of specific demand in the design of the financial services; and (ii) insufficient capacity of implementing partners. The policy principles emphasise the need to move towards market-led and demand-oriented approaches, offering a diverse set of services and products. While the diversity of instruments, services and products has increased, these seem to have been offered within traditional supply-led approaches, leading to a lack of orientation of country interventions on demand. A related key issue is the weaknesses of implementation capacity on the ground. These issues must be addressed for IFAD to remain relevant and in-demand as an IFS player. In this respect, the synthesis report offers five recommendations:

38. **Recommendation 1. Conduct a stock-taking of current IFS practices on the ground.** For instruments that have been promoted over the past decade – such as matching grants – IFAD should conduct a comprehensive assessment, for example as to: how they were designed and conceptually integrated; how they have been used by recipients; the costs involved in administering the grants; what longer-term impact they generate for beneficiaries; and to what extent they facilitated continued access to finance. Other important topics that call for learning from the field are the approaches promoted in IFAD's current strategy – such as linking business development services and finance, or integrating VCs and finance. Such an assessment would inform implementation of the recommendations that follow.

39. **Recommendation 2. Update IFAD's Rural Finance Policy and prepare a corporate IFS strategy,** with the aim of supporting consistent implementation of the Policy throughout the organization.

- The revised Policy would reflect lessons from IFAD's operations, as well as the new developments in the sector – for example digitalization. Without being overly detailed, it would present the principles of what works.
- The strategy would go deeper and would be valid for a limited timespan, for example for three years. It would provide guidance on how to strengthen the focus on financial sector development in regional portfolios, based on a good contextual analysis.
- The strategy would identify responsibilities for IFS technical support, knowledge management, and learning at headquarters, regional and country levels. The strategy would clearly describe the areas where IFAD has a comparative advantage and determine areas of strategic focus – such as graduation or agricultural VCF – as well as areas that require further attention, such as the use of matching grants, the sustainability of FSPs and exit strategies. The strategy would be informed by lessons from implementation (see recommendation 1), and would synthesize insights in a forward-looking manner.

- Hence the strategy would include a corporate approach to IFS capacity-building. Working with and supporting learning partnerships has been a positive investment, and should continue. The areas of focus identified in the strategy will inform further development of the IFS guidance, which should be practice-oriented and based on deeper insights regarding demand by the target group. While the guidance has to take into account international good practices, the focus should be on IFAD's strengths – among them a focus on remote areas and poor farmers, considering the unique position that IFAD has in this respect.
- The final element of the strategy will be monitoring and evaluation, which should contribute to corporate learning and knowledge management: the use of financial instruments needs to be tracked; effectiveness needs to be assessed separately on IFS, not together with the overall component; and regular feedback into lesson-learning needs to be secured in an agile manner.

40. **Recommendation 3. Enhance strategic impacts at institutional, sector and policy levels, through a greater focus on meso-level institutions and stronger partnerships with agencies working in the sector.** IFAD should move in the direction of being a strategic change agent and facilitator of rural and inclusive finance development. In the past, the scope and targets for IFAD projects have placed a lot of pressure on delivering quick results on a large scale at beneficiary level – but what would be needed today is greater focus on longer-term results at institutional, sector and policy levels.
    - IFS partnerships need to be strategic, shifting the focus beyond knowledge generation and putting a stronger focus on country-level implementation and results. Priority should be given to partners that advance and complement IFAD's expertise and capacities on the ground – for example, international NGOs or rural finance and microfinance institution networks offering effective implementation support.
    - Partnerships should include cofinancing, as well as partnerships for knowledge and learning with international organizations and development partners working in related areas (e.g. VC development).
    - To enhance knowledge networks at regional and national levels, sufficient efforts and resources should be allocated (in time and finance) to building of the capacities of national rural finance consultants and technical staff within partner organizations (also using grants).
    - At operational level, less emphasis should be placed on reaching out to a large number of clients, with more emphasis on facilitating change and strengthening the capacities of meso-level institutions.
    - National financial inclusion strategies provide an important platform for coordinated policy engagement and implementation. IFAD should become part of this and work in close partnership with other agencies.
    - Increased attention to regional and national partnerships should not diminish the importance of global partnerships and platforms, which will require dedicated focal points within IFAD to be identified through the strategy (see recommendation 2).

41. **Recommendation 4. Conduct sound analysis at the design stage and be flexible in adapting it during implementation,** to ensure that projects are demand-led, appropriate for the context and able to absorb emerging lessons and experiences**.**
    - Demand studies should be part of the design and should include a clear segmentation of the demand side and the capacities of the full range of stakeholders and clients. An additional sector assessment should also be carried out, including thorough and standardized evaluations of potential FSPs

and meso-level organizations. This could be based on a standard country diagnostic format (demand, supply and enabling environment) to be developed, to include a light due diligence for partners that are not known.

- Capacities to manage, implement and absorb IFS activities need to be carefully assessed. For mixed projects that include IFS components, the capacities have to be taken into account of the lead agencies – usually the ministry of agriculture – along with their limited knowledge of financial sector development. For complex multi-level approaches in stand-alone IFS operations, IFAD must be prepared either to provide intensive technical support or to work closely with other development partners (for example through cofinancing).
- Programme designs have to build in flexibility so as to react more quickly and change the selection of key partners – or even instruments – where needed. Project duration and outreach goals need to be linked in a realistic manner, to ensure that necessary processes are not cut short. The sustainability of financial services needs to be a guiding principle from the beginning.
- While most of the design processes will take place at country and regional level, headquarters technical staff will have a critical role to play in ensuring that: important policy principles are addressed (for example: demand-led and innovative approaches, and balancing poverty outreach with sustainability); and lessons are consistently learned from implementation and integrated into the design of new projects (see recommendation 2).

42. **Recommendation 5. Continue experimenting with innovative approaches and services locally,** while extracting lessons and disseminating learning across the whole of IFAD.

- Recent initiatives to promote innovative practices within a regional context (e.g. digital finance in East Africa and VCF in Asia) are commendable, and should be continued. Their potential should be assessed for scaling up in other regions.
- Other innovative practices that are being tested at present, and that should be promoted further, include inclusive and agricultural insurance and mobile banking. Leveraging innovative types of aggregators with good outreach to rural areas – such as rural postal networks and mobile telephone operators – is highly relevant, for example in Africa.
- More attention should be paid to innovative practices in expanding pro-poor financial services, such as group and digitally supported savings.
- Innovative practices should be documented and shared at regional and global level and across the whole of IFAD, as part of the knowledge-sharing strategy (see recommendation 2).

Evaluation framework

Review questions	*Review method*
A. IFAD IFS framework documents review	
1. Policy relevance:	Documents review
1.1. Are the new rural finance policy (2009) and the rural finance Instruments relevant within all the different contexts/ different country types reviewed (MICs/LICS/FS), and in what ways are they relevant or not? What country contexts fit best for IFAD's work on IFS?	
1.2. Is the rural finance policy - and the related strategic documents - still relevant under the Agenda 2030 and given the existing global challenges?	
1.3. Did the approaches, products and services (e.g. microfinance) promoted contribute to the achievements of IFAD's goals on poverty reduction?	
2. Policy coherence:	Documents review
2.1. How coherent is IFAD strategic and policy framework?	
2.2. Do IFAD IFS instruments and the IFS products promoted reflect current good practices and lessons learned?	
2.3. Were the IFS products promoted by IFAD particularly suited for the agricultural sector?	
3. IOE Performance Ratings:	Documents review
3.1. How did rural finance projects perform in comparison with the rest of the IOE evaluated portfolio?	
3.2. Have ratings for IFS focus projects improved over the years?	
4. IFS knowledge management	Documents review
4.1. To what extent did the revised rural finance policy (2009) and the knowledge generated at headquarters level lead to a greater diversity of IFS services and products and/or innovative IFS services and products in rural finance focus projects and portfolios evaluated by IOE?	Interviews rural finance dashboard SmartAid reports
4.2. To what extent did the knowledge generated through IFS grants or global platforms (e.g. PARM, CABFIN) enable innovative IFS practices within IFAD supported operations?	
5. IOE evaluations	
5.1. To what extent were findings and recommendations used to improve the quality of the IFS portfolio?	Documents review IOE database
5.2. To what extent and how were IOE findings and recommendations used to improve the quality of new operations?	QESAR database
5.3. What other effects (e.g. learning) did IOE evaluations generate?	PRISMA reports Focus group discussions / CPM survey
B. Questions for systematic review	
1. Relevance	
1.1. Policy relevance: How well were projects aligned with the IFAD rural finance policy and the respective national country policy/policies or strategies and regulatory frameworks?	NVIVO
1.2. Strategic relevance. Were the models (or: strategic approaches) chosen appropriate and in line with the needs of the country and the target groups?	NVIVO
1.3. How relevant and appropriate was the choice of implementing partners?	NVIVO
1.4. Relevance of intervention areas and the services and products provided	NVIVO
2. Effectiveness	
2.1. What were the results achieved?	NVIVO
2.2. How effective were the intervention models chosen?	Case studies
2.3. Effectiveness of IFS grants	

3. Efficiency	
3.1. Cost efficiency/cost-benefits/value for money	Case studies
4. Impact	
4.1. Which project types (A-D) and intervention models had been most inclusive and successful in addressing rural poverty issues?	NVIVO
4.2. How important were rural finance interventions for achieving rural poverty impact?	NVIVO
4.3. Impact on institutions and policies. To what extent did IFAD supported interventions contribute to changes at institutional / sector/ policy levels?	NVIVO
5. Sustainability	
5.1. How sustainable were the institutions supported by IFAD (macro, micro and meso level)?	NVIVO
5.2. How sustainable was support at macro level (policies, legislation)? Within the countries reviewed, were there policies enacted? Were they implemented and are they continuing in force (even after some time)?	
5.3. What are the factors enabling or hindering sustainability at the different levels?	
C. Good practices and lessons review	
6. Good practices	
6.1. What worked well and what didn't? Under which circumstances?	Case studies
6.2. What are good practices on IFS?	
6.3. Where are good practices not applied or lacking?	
7. Lessons learned	
7.1. What are the lessons learned from this synthesis?	
7.2. What are the lessons that could be learned from other international organizations?	Extracting lessons from other organizations (IFIs, UN, bilateral)
8. Opportunities of IFS for rural transformation and poverty eradication.	Relevant studies on IFS/microfinance
9. Limitations of IFS for rural transformation and poverty eradication.	Relevant studies on IFS/microfinance

ESR review sample (PPEs, IEs and CSPEs)

Project sample

Evaluation	*ESR number*	*Project ID*	*Country*	*Project name*	*Loan amount (US$ million)*	*Cooperating institution*	*Approval date*	*Effectiveness date*	*Completion date*	*Closing date*	*Proportion of IFS funding*
Belize CE (2008)	1	1100001067	Belize	Community-Initiated Agriculture and Resource Management Project	2.293	Caribbean Development Bank	23/04/1998	30/06/1999	31/12/2005	01/08/2008	21.3%
Argentina CE (2009)	4	1100000506	Argentina	Rural Development Project for the North-Eastern Provinces	16.5	CAF	18/04/1996	15/10/1998	30/06/2007	15/03/2010	37.7%
China CE (2010)	6	1100001153	China	West Guangxi Poverty Alleviation Project	30.4	IFAD, WFP, UNOPS	07/12/2000	21/03/2002	31/03/2008	06/11/2009	22.0%
Ghana PPA (2012)	8	1100001134	Ghana	Rural Finance Services Project	11.0	World Bank IDA	03/05/2000	29/01/2002	30/06/2008	08/02/2010	92.9%
Dominican Republic CE (2011)	9	1100001068	Dominican Republic	South Western Region Small Farmers Project - Phase II	12.0	IFAD Pilot, UNOPS	03/12/1998	05/04/2000	31/12/2007	20/05/2009	58.4%
Moldova PPA (2012)	13	1100001340	Moldova	Rural Business Development Programme	13.0	IFAD, UNOPS	13/12/2005	10/07/2006	30/09/2011	15/10/2012	73.0%
Armenia PPA (2012)	14	1100001307	Armenia	Rural Areas Economic Development Programme	15.3	IFAD, UNOPS	02/12/2004	19/07/2005	30/09/2009	31/12/2013	50.4%
Zambia PPA (2012)	15	1100001039	Zambia	Forestry Management Project	12.6	UNOPS	09/12/1999	26/06/2002	30/06/2007	10/12/2009	24.6%
India PPA (2013)	18	1100001121	India	National Microfinance Support Programme	22.0	IFAD, UNOPS	04/05/2000	01/04/2002	30/06/2009	13/12/2011	97.6%
China PPA (2013)	19	1100001227	China	Rural Finance Sector Programme	14.7	IFAD, UNOPS	21/04/2004	13/09/2005	31/03/2010	27/01/2012	68.7%
Mongolia PPA (2013)	20	1100001205	Mongolia	Rural Poverty Reduction Programme	14.8	IFAD	05/09/2002	09/07/2003	31/03/2011	24/10/2011	25.9%
Georgia PPA (2014a)	22	1100001325	Georgia	Rural Development Project	9.2	World Bank	19/04/2005	22/05/2006	31/12/2011	16/10/2012	74.2%
Georgia PPA (2014b)	23	1100001147	Georgia	Rural Development Programme for Mountainous and Highland Areas	8.0	IFAD	13/09/2000	04/09/2001	30/09/2011	16/10/2012	34.4%
Sudan PPA (2014)	24	1100001263	Sudan	Gash Sustainable Livelihoods Regeneration Project	24.9	IFAD	18/12/2003	12/08/2004	30/09/2012	14/10/2013	23.7%

Uruguay PPA (2013)	25	1100001161	Uruguay	Uruguay Rural	14.0	IFAD	07/12/2000	04/09/2001	31/03/2011	11/03/2013	23.5%
India PPA (2015)	31	1100001226	India	Livelihood Improvement Project for the Himalayas	39.92	IFAD\PR: UNOPS	18/12/2003	01/10/2004	31/12/2012	17/12/2013	58.4%
Pakistan PPA (2015)	32	1100001245	Pakistan	Community Development Programme	21.77	UNOPS	18/12/2003	02/09/2004	30/09/2012	30/06/2014	54.2%
Albania PPA (2015)	33	1100001339	Albania	Programme for Sustainable Development in Rural Mountain Areas	8.0	UNOPS	13/12/2005	14/02/2007	31/03/2013	30/01/2015	22.0%
Bangladesh PPA (2016)	40	1100001402	Bangladesh	Finance for Enterprise Development and Employment Creation Project	35.0	IFAD	11/09/2007	08/01/2008	31/03/2014	30/09/2014	93.3%
Philippines PPE (2016)	41	1100001253	Philippines	Rural Microenterprise Promotion Programme	21.2	Asia Development Bank	19/04/2005	31/10/2006	31/12/2013	30/06/2014	89.1%
Egypt PPE (2017)	42	1100001204	Egypt	West Noubaria Rural Development Project	18.48	UNOPS	23/04/2002	09/04/2003	30/06/2014	31/12/2014	54.5%
Malawi PPE (2017)	43	1100001164	Malawi	Rural Livelihoods Support Programme	13.47	UNOPS	12/09/2001	30/08/2004	30/09/2013	31/03/2014	38.0%
Cameroon PPE (2017)	45	1100001362	Cameroon	Rural Microfinance Development Support Project	16.7	IFAD	11/09/2008	07/05/2009	30/06/2016	31/12/2016	80.2%
Lesotho PPE (2017)	46	1100001371	Lesotho	Rural Financial Intermediation Programme	8.7	IFAD	12/09/2007	31/03/2008	31/03/2015	30/09/2015	69.5%
Georgia IE (2017)	47	1100001507	Georgia	Agricultural Support Project	13.7	IFAD	17/12/2009	08/07/2010	30/09/2015	31/03/2016	28.0%

Source*:* ESR compilation based on GRIPS.
WFP: World Food Programme

CSPE sample

Evaluation	ESR assigned ID	Country	Region	CSPE evaluation year	Country classification at time of evaluation	CSPE coverage	Total projects evaluated	Portfolio total (US$)	Portfolio sum of rural finance activities (US$)*	Proportion of rural financial activities in total project funding
Mozambique CSPE (2008)	1	Mozambique	ESA	2008	L	1993-2009	7	201 435 257	64 090 583	31.8%
Argentina CSPE (2009)	2	Argentina	LAC	2009	UM	1988-2008	5	135 208 816	27 894 700	20.6%
India CSPE (2009)	3	India	APR	2009	L	1987-2009	18	1 263 469 771	551 657 037	43.7%
Niger CSPE (2009)	4	Niger	WCA	2009	L	1997-2009	7	198 117 954	38 312 516	19.3%
Ghana CSPE (2010)	5	Ghana	WCA	2010	LM	1998-2010	6	284 915 963	101 251 288	35.5%
Kenya CSPE (2010)	6	Kenya	ESA	2010	L	2000-2011	7	242 036 865	85 499 898	35.3%
Vietnam CSPE (2010)	7	Vietnam	APR	2010	LM	2000-2010	11	351 799 426	106 373 749	30.2%
Yemen CSPE (2010)	8	Yemen	NEN	2010	LM	2000-2010	10	259 376 674	49 468 469	19.1%
Ecuador CSPE (2012)	9	Ecuador	LAC	2012	UM	1997-2012	4	157 230 056	27 596 566	17.6%
Indonesia CSPE (2012)	10	Indonesia	APR	2012	LM	2004-2012	7	351 420 000	102 984 001	29.3%
Mali CSPE (2012)	11	Mali	WCA	2012	L	2007-2012	5	318 835 856	57 988 773	18.2%
Nepal CSPE (2012)	12	Nepal	APR	2012	L	1992-2012	6	215 052 770	21 143 619	9.8%
Bolivia CSPE (2013)	13	Bolivia	LAC	2013	LM	2005-2012	5	128 519 724	13 898 296	10.8%
Moldova	15	Moldova	NEN	2013	LM	1992-2012	5	111 774 220	89 890 719	80.4%

CSPE (2013)										
Zambia CSPE (2013)	16	Zambia	ESA	2013	LM	2003-2013	7	157 635 862	37 738 309	23.9%
Bangladesh CSPE (2014)	17	Bangladesh	APR	2014	LM	2004-2014	10	782 267 319	99 998 493	12.8%
Tanzania CSPE (2014)	18	Tanzania	ESA	2014	L	2004-2014	7	443 846 368	83 319 959	18.8%
Brazil CSPE (2015)	19	Brazil	LAC	2015	UM	2008-2015	8	606 668 620	102 888 542	17.0%
Ethiopia CSPE (2015)	20	Ethiopia	ESA	2015	L	2008-2015	8	878 967 534	463 266 013	52.7%
India CSPE (2015)	21	India	APR	2015	LM	2010-2015	13	1 528 597 357	433 888 250	28.4%
Turkey CSPE (2015)	22	Turkey	NEN	2015	UM	2003-2015	4	131 855 460	18 140 041	13.8%
Egypt CSPE (2016)	23	Egypt	NEN	2016	LM	2005-2016	9	594 056 606	295 333 023	49.7%
Mozambique CSPE (2015)	24	Mozambique	ESA	2016	L	2010-2016	6	271 831 621	61 218 374	22.5%
Cambodia CSPE (2017)	27	Cambodia	APR	2017	LM*	2007-2016	7	316 064 048	62 987 722	19.9%
Peru CSPE (2018)	28	Peru	LAC	2018	UM*	2002-2016	6	217 215 947	33 805 238	15.6%

Source: ESR compilation based on GRIPS.
APR: Asia and the Pacific Division of IFAD
ESA: East and Southern Africa Division of IFAD
LAC: Latin America and the Caribbean Division of IFAD
NEN: Near East, North Africa and Europe Division of IFAD
WCA: West and Central Africa Division of IFAD

Background – The microfinance debate

The contribution of microfinance to poverty alleviation and the Microfinance Crisis (2010 – 2015)[1] [2]

After about two decades of supporting microcredit, and later microfinance, harsh criticism emerged in the international debate sometime around 2010 identifying this support as "the microcredit lie". The criticism referred to the idea that microcredit can lift people out of poverty, as the Grameen Bank founder Mohammad Yunus had promulgated. The debate referred to the limitations of microcredit as a development tool. It had appeared that borrowers often used microcredit for purposes other than productive ones. The so-called "power of microcredit" to generate additional income was recognized to be limited. Other criticisms were that microcredit was contributing to over-indebting people, while impact studies were pointing to the negative impact of microcredit on poverty levels.

As the Grameen type of microcredit provision had often been indirectly subsidized, the commercial model emerging embarked on cost-covering interest rates that had to be charged to sustain the business model. The commercial, financially self-sustainable for-profit model that did not need subsidies had made headway until several large MFIs went public, at which point it received severe criticism (e.g. in Mexico in 2007) and MFI owners, investors and advisors were accused of excessive profiteering. The "neo-liberalization of microcredit" was said to have backfired.

Studies up to 2014[3] have shown that, despite the overestimation of the impact of microcredit on poverty alleviation, it has some positive effects on consumption and investment behaviour of those accessing microcredit.[4] Evidence on the impact on microcredit was mixed but overall positive: some programmes reported no evidence of a positive impact on household welfare, while others reported positive changes on consumption soothing and on businesses. Regarding savings, the impact is reported to be more consistently positive, as microcredit helps households manage cashflow spikes and smooth consumption, as well as build working capital. Concerning insurance, impact was also assessed to be positive, however, serious demand-side barriers such as lack of trust and liquidity constraints hamper up-take. The impact of "newer" financial services, such as payments and mobile money, is less clearly researched. However, the positive impacts of reduced transaction costs of remittances was measurable. For example, a reduction by 42 per cent was measured in the cost of sending remittances via post offices in four pilot countries.[5]

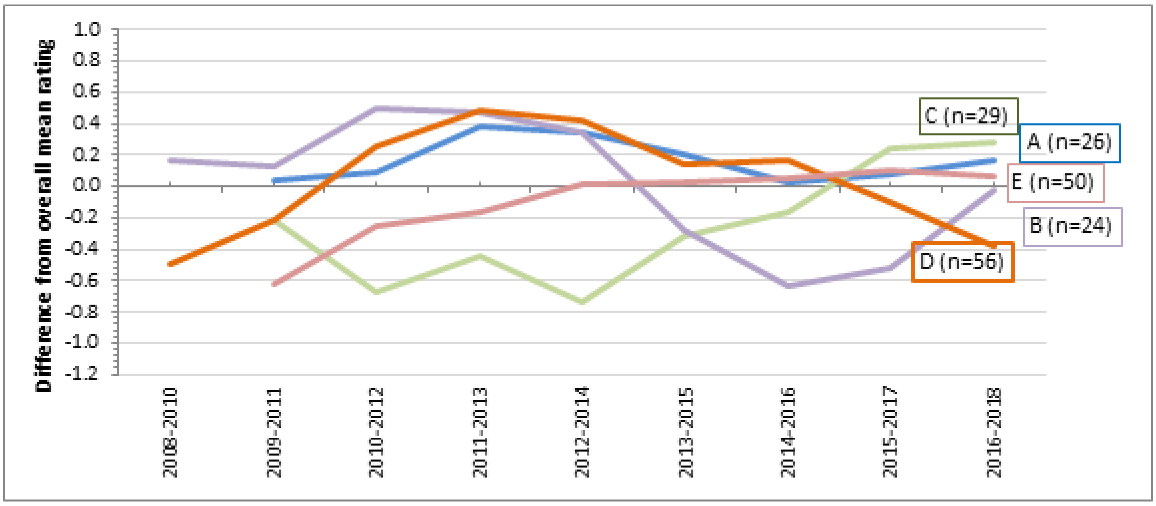
Still growing numbers in formal microfinance. Despite some of the abovementioned problems, formal microfinance was continued to expand. For example, the aggregate number of borrowers served by 821 MFIs reporting to the global data platform MIX Market from 91 countries, grew by 21 per cent per year between 2003 and 2008, while the loan portfolio grew by 34 per cent per year.[6] As per 2015 figures, 116 million active borrowers were served by 1,033 microfinance institutions in 201 developing markets that report to the MIX, as well as 98 million depositors. Regarding mobile money, the GSMA 2017 reports mobile money as the leading platform, with 690 million registered accounts, of which 247 million are actives users (90 days). However, in fact, the total number of people served by all providers together must be considerably higher as those reported by the MIX and by GSMA because those served by banks, CBFOs and insurance companies are not captured by these databases. Micro insurance alone reports over 500 million coverages.

[1] Adapted from: CGAP Blog, Richard Rosenberg 2009 http://www.cgap.org/blog/does-microcredit-really-help-poor-people.
[2] International Development Studies Working Paper Series, 001, January 2014, Milford Bateman.
[3] http://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf.
[4] The miracle of microfinance? Evidence from a randomized evaluation (Banerjee, Esther Duflo, Glennerster, Kinnan, March, 2014).
[5] IFAD Postal Financial Services Africa, March 2018.
[6] MIX Data Brief No.5, June 2010.

Detailed performance review with project cases

The review of IOE project ratings indicate that projects that included financial services interventions have outperformed projects without any IFS interventions (type E) until 2015/2016 when the trend has flattened. Projects with substantial IFS financings (>60 per cent), but without a dedicated IFS component, (type A) performed above average throughout the period. Projects with IFS financing between 20 and 60 per cent (type C) register a positive trend starting 2015/2017, while type D projects (IFS financing below 20 per cent) have been on a downward trend since the 2012-2014 period.

Figure 1
Distance from overall mean of project types A-E project performance ratings in the project performance evaluation / impact evaluation / project completion report validation sample by moving averages of three years (2008-2018)

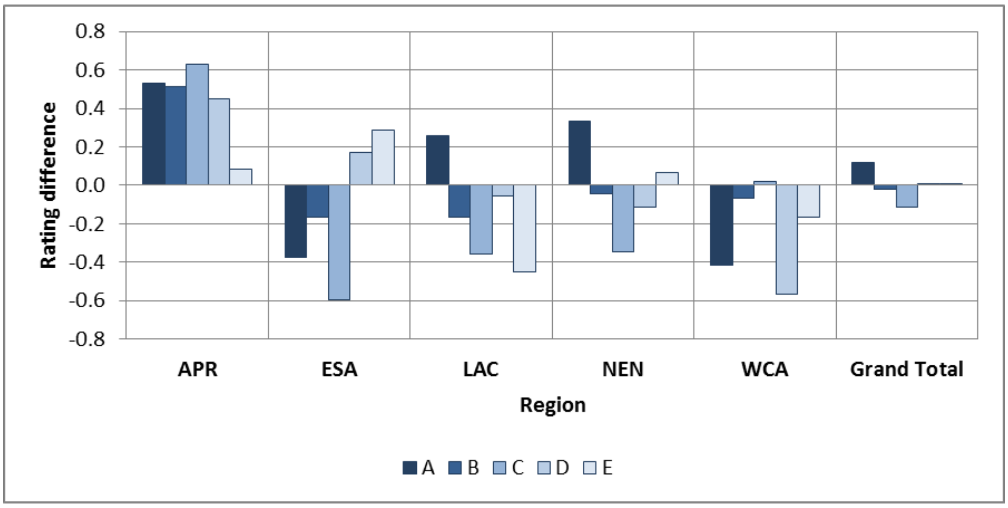


Source*:* IOE ratings database.

Projects with IFS financing between 20 and 60 per cent (type C) have followed a different trend. They showed wide variance in performance between 1998 and 2001, with overall average project being low. This improved from 2002 onwards, with no negative outliers and the overall average improving. On average this type of projects continued to perform worse than most other project types until 2014/2016 when they started outperforming all other types of projects.

The performance of IFS projects varies widely between regions. All types of projects, but particularly projects with dedicated IFS components (type B) performed above the regional average in the Asia and the Pacific Division. IFS projects performed below regional averages in the East and Southern Africa Division. Projects with significant IFS funding (type A) performed better than other project types in the Near East, North Africa and Europe Division and the Latin America and the Caribbean Division. Type C projects with IFS financing between 20 and 60 per cent show a significant above the average performance in the Asia and the Pacific Division.

Figure 2
Distance from regional mean of project types A-E project performance ratings in the project performance evaluation / impact evaluation / project completion report validation sample (2008-2018)



Source*:* IOE ratings database.

Projects with high relevance ratings. Projects with a high share of rural finance funding that responded well to the institutional context were found highly relevant. Within the PPE sample, five projects were rated fully satisfactory (5). The average share of funding allocated to fully satisfactory (relevance) projects was 44.6 per cent. Only 1 full rural finance project (#18 India, with 97 per cent of rural finance funding) was rated fully satisfactory on relevance. In China (#6: high relevance and effectiveness) the choice of credit lines by member-governed FSPs (rural credit cooperatives - RCCs) responded to the need of more access to rural financial services through participatory approaches. Also, by providing more resources for RCCs, lending for investments and to women was induced. In Yemen (CPE) the choice of the Social Fund for Development as meso-level partner was found highly appropriate: it evolved into a highly effective and efficient organization, with particular strengths in the social aspects of poverty reduction and community development, participating in the implementation of the national poverty reduction strategies. In India, (#18) the focus on providing grants to MFIs in order to allow expansion of operations and managerial, administrative, operational costs coverage was found relevant.

Projects with low relevance ratings. On the other hand, projects that were based on poor institutional choices were found less relevant. The share of funding allocated to rural finance tends to be lower in less relevant projects. Seven projects have received less than satisfactory ratings (3 and 2) on relevance. Allocations of funding were less than 30 per cent for Albania, Sudan and Zambia, but more than 60 per cent for Lesotho and Cameroon. In Zambia, the most relevant strategies were based on credit facilities, designed in a time of liquidity shortage, and community-based financial institutions, by provision to rural villages with focus on female participation. The choice of the National Savings and Credit Bank as a partner was not appropriate because of its ongoing focus not on rural poor rather on their previous and higher-segment clientele. In Albania, a successful strategy was strengthening and consequent transformation of the Mountain Areas Development Agency into a regional development agency. However, the decision to transform the Mountain Areas Finance Fund into a rural commercial bank was not successful.

Effectiveness ratings. Overall, 70 per cent of projects reviewed (18 in absolute terms) register an effectiveness rating between 2 and 4 and only the remaining 30 per cent (7) goes beyond 4.5. Effectiveness ratings were fully satisfactory (5) for three projects in the Asia and the Pacific Division (#18 India, #19 China, #40 Bangladesh), and one project each in the Near East, North Africa and Europe Division (#14 Armenia), the Latin America and the Caribbean Division (#25 Uruguay), and the West and Central Africa Division (#08 Ghana). Only #06 China was rated highly effective (6). In general, high effectiveness (5 or 6) ratings are aligned with positive outputs and outcomes ().[1]

[1] #14 Armenia, #25 Uruguay, #8 Ghana, #18 India, #06 China

However, in two cases the fully satisfactory ratings (5) do not correspond with the documented results (#40 Bangladesh, and #19 China).[2]

High effectiveness ratings correlate positively with the amount of funding. Projects with more than 60 per cent of funding allocated to rural finance (type A) report a positive output and outcomes. Four (out of nine) type A projects have fully satisfactory ratings. The average proportion of funding allocated to rural finance is 82.1 per cent. The highest percentage of funding is noticed in India #18 (97.6 per cent, effectiveness rating 5). Projects with a high proportion of rural finance funding tend to perform better because they are can dedicate financial resources and qualified staff to the implementation of rural finance activities.

On the other hand, projects with a dedicated rural finance component (type B) manage rural finance activities among others. The average proportion of funding for type B projects in the sample is 33.8 per cent; funding ranges from a low 21.3 per cent to a high 58 per cent. Hence project ratings reflect the performance of the overall set of activities, not only the rural finance component. However, five (out of 12) type B projects have received moderately unsatisfactory (3) ratings.

Major results reported. The most common positive outputs in effective projects are: (i) good loan provision; (ii) FSP staff training; (iii) expanded loan portfolio and new products/services; and (iv) capacity building. The less common outputs showing a positive outcome and high effectiveness are identified with: (i) strengthening of CBFOs; (ii) expanded loan portfolio; (iii) establishment of credit cooperatives and creation of credit committees; (iv) inputs into regulatory framework; (v) introduction of group lending services; (vi) increase of MSMS borrowers; and (vii) creation of rotating funds.

Outcomes with regard to the improved performance of FSPs are reported in five highly effective projects. Operational efficiency was improved in #08 Ghana (Effectiveness rating 5). The cheque clearing intervention has resulted in related cost savings of 75 per cent for the RCBs. Savings mobilized by rural and community banks increased by GHS 275 million (from 39 million in 2001 to 315 million in 2008), compared to a target of 300 million, although this change cannot be attributed to the IFAD project only. The cost per dollar lent in the case of rural banks decreased significantly from 0.49 cents to 0.12 cents.

In # 19 China (effectiveness rating 6) the operating self-sufficiency (OSS) of the RCCs networks increased, confirmed by the improvement in operational efficiency given by loan officer productivity ratio. Extended credit services, with low operating cost at grassroots level, through the creation of a network of farmer credit agents (intermediaries) that acted as intermediaries between lenders and borrowers, enabled the provision of loan products to farmers in remote villages.

Institutional change/transformation occurred in #18 India. The National Microfinance Support Programme strongly supported the institutional development of MFIs through innovative approaches to facilitate transformation of not-for-profit MFIs into for-profit non-banking finance companies, in some cases following the route of an NGO transforming into a non-banking finance companies. Including the strategy of the Small Industries Development Bank of India (SIDBI) Foundation for Micro Credit, inter alia, development of local MFIs, inducing successful microfinance operators in well-served states to expand operation in underserved states, incubating start-up MFIs, and providing a portfolio risk fund facility. At project completion, out of 131 MFIs supported by the project, 73 MFIs were in underserved states. All these measures have had a positive impact on the majority of the MFIs with regard to governance, management and client protection. The geographical coverage of the microfinance sector has increased significantly and there has been a much wider range of methodologies, products and institutions involved in the delivery of microfinance in India (when comparing the end of the programme to the beginning).

Regulatory outcomes were also reported in #18 India. The SIDBI Foundation for Micro Credit contributed in various ways to the formulation of RBI regulations for non-banking finance company MFIs. It also played an important role in supporting the MFI associations in establishing common codes of conduct, developing credit bureaus, and promoting a lenders" forum to ensure a common set of terms and conditions that the lenders incorporate in the agreements with MFIs.

Of 25 PPEs reviewed two projects (#15 Zambia, #23 Georgia) did not implement IFS activities. Of the 23 remaining projects reported, 4 (#08 Ghana, #20 Mongolia, #22 Georgia, #43 Malawi) did not

[2] Also there are three projects: where positive outputs are accompanied by unsatisfactory ratings (#24 Sudan, #45 Cameroon, #43 Malawi). In one single case (#09 Dominican Republic) a moderately satisfactory rating (4) is not associated with positive achievements in rural finance.

have data to make a judgement on the impact of IFS activities on overall target groups, though #20 Mongolia and #22 Georgia were able to discern impacts for women (see outreach chapter).

Over half of the reviewed PPEs (11 out of the 19) reported positive impacts for their intended target groups. Within this group, five projects were type A (with more than 60 per cent rural finance funding). Four projects had a dedicated rural finance component (type B). Nine projects (type A, B and C) had more than 50 per cent funding. The remaining two projects had less than a quarter of their funding allocated to rural finance (#06 China, #25) and it is therefore likely that the positive impact are attributable to non-rural finance interventions as well.

Negative results were reported for four projects, which includes three projects with a dedicated rural finance component (type B), but only one type A project, #45 Cameroon, that had more than 80 per cent rural finance funding but failed to achieve any positive impacts.

High poverty impact projects. Projects that were rated high (5) on poverty impact included the following:

a. In #04 Argentina the choice of the indigenous people graduation model generated one CBFO-type FSP (SACCO), to be considered appropriate, given the high poverty rates, proposed grant process to finance income generating activities via the vehicle producer or multi-purpose cooperatives, and the function the cooperatives assumed that was linked to finance. These organizations assumed the functions of selecting the beneficiaries of credit, preparing projects and investment plans, supervising the execution of projects and/or plans, collecting individual payments, among others. In addition, the funds from the SACCO gave the cooperatives the possibility of buying crops from the members and paying them in cash, to then make a large-volume sale at a better price. One main bottleneck, however, was the lack of additional capital to buy larger volumes.

b. In #13 Moldova, the positive impact was determined by banks developing appropriate loans for MSMEs, despite being somehow reluctant in wanting to apply their own loanable resources to farmers because urban clients are given higher priority in the hierarchy of clients.

c. In #18 India, microfinance services proved to be an important component in the efforts towards poverty alleviation and women's empowerment.

d. In #19 China, positive impact was determined by the line of credit, which enables rural poor to increase their access to financial services.

e. In #14 Armenia, improvement of living conditions was noticed through increasing the level of financial inclusion in rural areas.

The lowest poverty rating (3) was given to #22 Georgia: The project's impact to be realized through changes in the pro-poor orientation of private sector organizations, mainly through creating a leasing sector directed to sustainable rural economic growth and poverty reduction, was not successful. In terms of private sector organizations, although the Agriculture Support Project intended on creating a market for leasing products for MFIs, this clearly did not work out. The project had no or little influence on food security. No sustained improvement of household income attributable to interventions can be noticed and the community development component does not show any impact on human and social capital and empowerment. The only positive aspect has been the improvement of accessibility to education and health.

Institutional-level impact. 38 evaluations reported changes at the institutional level (23 PPEs and 15 CSPEs). 27 of 37 evaluations found positive changes on institutions. #06 China impact on institutional level is given by the strengthening of the RCC network. #40 Bangladesh shows a positive impact at institutional level only, with institutionalization of microenterprise financing mechanism through partner organizations. Yemen CPE is a clear example of the negative impact on institutional changes. Due to the state-owned Cooperative and Agriculture Credit Bank's (CACB) lack of interest, this model was particularly exclusionary to the rural poor. The poor experience of CACB in the projects has effectively convinced it to eventually exit the agricultural lending sector.

Sector-level impact. 17 of 24 evaluations found positive changes on the sector. Mixed results were reported in three evaluations (#22 Georgia, Nepal CPE, Peru CSPE), while four found negatively reported impacts (#40 Bangladesh, #45 Cameroon, #47 Georgia, Egypt CSPE). In Ethiopia (2015 CPE) RUFIP helped to establish a well-conceived and functioning system of microfinance, and as a result of its positive impact, the Central Bank created a new Regulation and Supervision Department for MFIs and a new Financial Services Department focused only on RUSACCOs was put into place. Notably, in Ethiopia, RUFIP worked along-side with other donors such as the World Bank and under clear guidance of the Central Bank, while the sector could also rely on a strong national microfinance association.

Niger (2009 CPE) shows positive changes at sector level, since the Rural Financial Services Development Programme contributed to the development of the National Microfinance Strategy adopted in March 2004 and supported the establishment of the national consultation framework. In Mozambique (2010 CPE), changes at institutional level are shown by the Office of Support to Small Industries' engagement in the Agricultural Markets Support Programme, which helped improve its business development service, specializing in developing the capacity of rural producers, traders and small-scale agro-processers, supporting their ability to borrow.

Policy-level impact. 18 evaluations reported changes at the policy level (6 PPEs and 12 CSPEs). 13 of 18 evaluations found positive changes on policies and/or regulatory frameworks.

High impact projects

#18 India can be considered a best practice in term of overall achievement, effectiveness and positive impact on rural poverty, as well as on changes at institutional, sector and policy level. Only mixed results are reported in terms of poverty focus, as the very poor have not been reached by the project. Main factors that contributed to positive impact can be found: (i) at institutional level: introduction of code of conduct assessments of the MFIs in most of the institutions involved; (ii) at sector level: establishment of credit bureaus; (iii) at policy level: proactive role in the formulation and revision of the Microfinance Regulation and Development Bill. High funding and presence of NGO interested and able to convert to an MFI, can be considered successful drivers for this project.

In **#08 Ghana**, all levels have been positively impacted. At institutional level, the contribution to the creation of the ARB Apex Bank improved access to capital and training for rural banks. At sector level, thanks to policy dialogue initiatives, a microfinance sector forum was established. Moreover, the Government set up a new institution under the Office of the President, called the Microfinance and Small Loans Centre, and an improved inspection of rural banks by the Bank of Ghana, with supervision at least once a year. A contribution at policy level is proven by the support to the preparation of the Microfinance Policy of Ghana in 2006.

#13 Moldova has positive impacts across all levels: (i) at institutional level, financing mechanisms for rural enterprises were created; (ii) at sector level: a revolving fund managed by the Ministry of Finance for continually refinancing commercial bank's rural lending and a network of capable business services providers were established; and (iii) at policy level: evidence-based knowledge and experience for policymaking in the rural economy was provided (together with USAID).

In **#19 China**, the establishment of the Chinese Banking Regulatory Commission as regulatory body overseeing the RCCs and banks instead of directly managing them drove a positive impact at institutional level. In terms of sector level, since 2005, the reform accelerated and selective RCCs were restructured into rural commercial banks, rural cooperative banks, and rural credit cooperatives. In addition, in the period 2007/2008, new types of smaller rural financial institutions were licensed: village and township banks (VTB), microcredit companies, rural mutual fund associations. Policy level changes results are mixed: the RCC network reform, providing clarity on structure and ownership, could be unlikely be attributed to the project.

When considering projects with a dedicated rural finance component (and at least 50 per cent rural finance funding), **#14 Armenia** is the most successful. Impactful changes at institutional level are linked to: (i) local banks becoming more active in the rural areas of the project, with an increase on the level of offerings, portfolios and number of branches; and (ii) introduction of a new three-pronged risk-sharing mechanism[3] for rural loans. At sector level, increased access to investment capitals in rural areas and establishment of the rural finance facility, as the institution responsible for facilitating access to financial services in rural areas (acting as a revolving fund as well), contributed to positive changes at sector level.

[3] The new risk-sharing mechanism provided rural investment incentives for both banks and clients with various innovative features by a combination of three strategic elements: (i) the establishment of the rural finance facility, as a vehicle for leveraging private-sector capital in support of poverty reduction;(ii) a mechanism that unlocks the door to long-term loans for agricultural and rural development enterprises; and (iii) a package including finance, knowhow transfer and an awarding mechanism of grants for investments in public infrastructure based on commercially justifiable criteria.

Low impact projects

In **#32 Pakistan**, negative impact at institutional level is due to a low level of saving activities (approx. US$14 per group member) because savings were just deposited to obtain matching funds. This, and the fact that there was no strategy for the long-term **sustainability** of the groups, considering a network of apex and which finally compromised the sustainability of the established community organizations. Results were models because of insufficient strategic thinking and needs assessment.

In **#33 Albania** impact of the finance component on the poor remained doubtful. The envisaged transformation of MAF Fund – later renamed to First Albanian Finance Development Company - into a formal rural finance institution proved to be unfeasible as early as 2007. Government decided to refrain from that plan as commercial banks were increasingly available throughout the country. The state-owned First Albanian Finance Development Company has remained a non-banking financial institution, unable to mobilize deposits. With is 27 branches (out of 40 planned), it covers more than 1,300 villages, provided 8,770 loans, 76 per cent of which have been for less than US$5,000. However, it 95 per cent of loans were for SMEs, and its original mandate to service the poor is on paper only. Worse, its sustainability is questionable.

#23 Georgia is a highly ineffective project overall and did not succeed in implementing changes at any level analysed. Among others, there was the lack of agreement with government on the operational format for delivery of credit, which made the component inactive. The initial idea was that the Ministry of Finance be in charge of contracting commercial banks to provide credit services for small and medium enterprises (design and implementation challenge) in phase 1. Later, government support for the proposed rural finance provision thought credit unions, MFIs and commercial banks was not provided.

In **#42 Egypt,** although positive poverty impact had been recorded due the establishment of community development associations, WUAs, FMAs there had been no impacts at institutional, sector and policy levels in the area of finance. The project's approaches to support self-sustaining mechanisms for rural finance. Channelling loans to small farmers worked initially, however, the Principal Bank for Development and Agriculture Credit which is going through restructuring and hence, underperforming (onerous requirements, delays and poor follow-up on repayment) leading to very few second loans being issued to clients. The IDS revolving fund operates outside of the financial system raising issues of **institutional sustainability.**

Within the PPE sample (25 projects), 28 per cent can be considered successful (7 projects: China #6, Ghana #8, Armenia #14, India #18, China #19, Uruguay #25, Bangladesh #40). These projects have the following features:

High effectiveness (between 5 and 6)	**Relevance, sustainability and rural poverty impact** between 4 and 5	**Capacity building** as a common enabling factor	**Training** as a common non-financial support	42 per cent of the successful projects show the presence of **apex funds**
29 per cent of projects report **credit unions** as financial service providers, CBFOs and commercial banks	57 per cent register **line of credit** as financial instrument. 42 per cent of projects are type B (dedicated IFS component and 58 per cent are type A (funding between 20 and 60 per cent).	Only 42 per cent present **positive gender results,** determined by increased women empowerment, outreach to women and CBFO/ enterprise development	71 per cent of the successful projects as amongst the **most inclusive in rural finance**, due to: (i) increase incomes among microenterprises' families; (ii) increased involvement of women in microenterprises; (iii) improved children's nutritional status; (iv) expansion of MFIs networks; (v) Improved policy network	
Main impact factors for successful projects were: (i) strengthening IFIs (credit unions) to lend to established groups with increased access to market information formed under a marketing federation for better marketing (**China #6**); (ii) constitution of associations for savings and credit to provide community-based financial credit and savings services complemented with micro-level support to retail FSPs, meso-level support from MFI promoter associations, and macro-level support to the central bank to provide better oversight of MFIs and policy dialogue (**Ghana #8**); (iii) increase private bank outreach to rural SMEs and producers (**Armenia #14**); (iv) expansion of MFIs networks and Improved policy network (**India #18**); (v) reform of policy government and strengthening of local FSs to increase outreach to rural poor (**China #19**); (vi) demand-based beneficiary-selected investments for social and economic local development, and credit fund for increased rural finance access for investments in production, plus CBFOs and enterprise development (**Uruguay #25**); (vii) increased income of microenterprises, increased women empowerment, Increased profit of SMEs and long term sustainability (**Bangladesh #40**).				

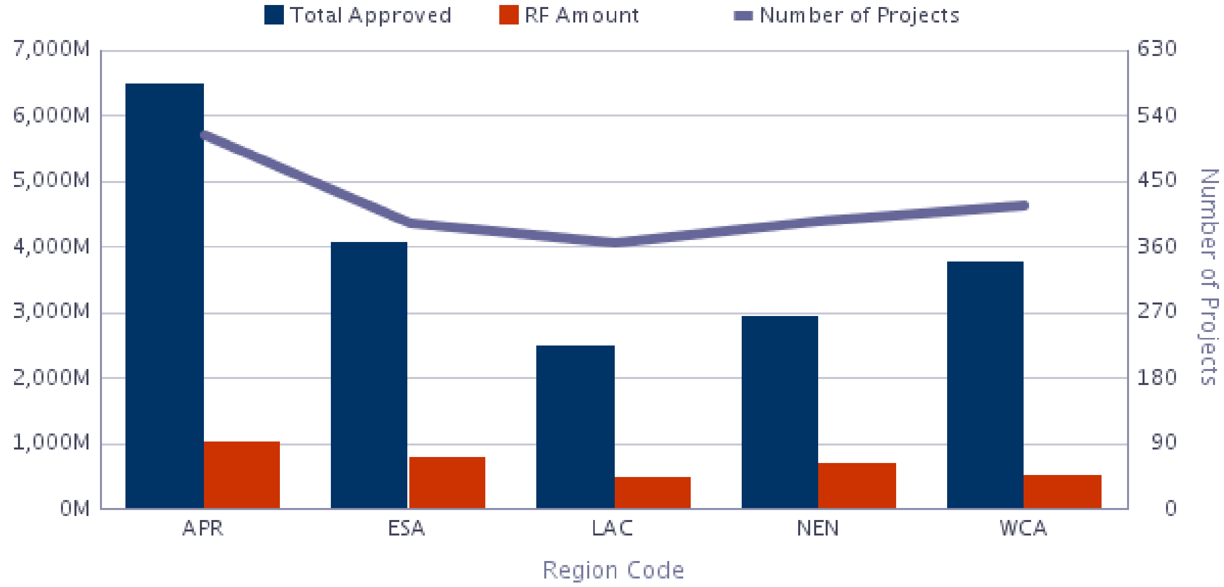
36 per cent of the projects within the PPE sample can be considered unsuccessful, with effectiveness ratings between 2 and 3 (9 projects: Belize #1, Zambia #15, Georgia #23, Sudan #24, Albania #33, Malawi #43, Cameroon #45, Lesotho #46, Georgia #47). These projects show the following features:

<table>
<tr><td>Low effectiveness (between 2 and 3)</td><td>67 per cent of projects have relevance ratings between 2 and 3; 55 per cent have sustainability rating between 2 and 3; 44 per cent show unsatisfactory ratings for rural poverty impact</td><td>Inappropriate strategy, lack of contextual understanding, government support and insufficient funding amount are hindering factors</td><td>100 per cent of projects show loans as type of financial service provided.

22 per cent of projects are type C, another 22 per cent are type A and the remaining 55 per cent of unsuccessful projects are type B.</td><td>Common approaches for unsuccessful projects are capacity building and retail financing.</td></tr>
<tr><td>67 per cent of projects report line of credit as financial instrument. Only 3 out of 9 projects show credit unions as FSPs and none of them show the choice of matching grants.</td><td colspan="4">33 per cent of the unsuccessful projects are listed among the least inclusive in rural finance and in particular: (i) Albania #33, where the outreach was very low (loan recipients were not poor – only 5 per cent - and relatively well off). Jobs generated did not show if they were taken up by the poor. Only 18.6 per cent of loan recipients were women. Poverty reduction as a consequence of interventions had little evidence and in addition the very limited number reached; (ii) Cameroon #45, reporting limited improvement of agricultural productivity and causing the Increase of the already existing income gap between beneficiaries and non-beneficiaries; and (iii) Georgia #47, where several negative results were reported such as: a. not reaching the initial target groups, rather large-scale enterprises that exploited leasing finance for limited operations; b. no effect on food security; c. no change in the orientation of private sector toward pro-poor focus as expected; and d. missed creation of leasing products market among MFIs.</td></tr>
</table>

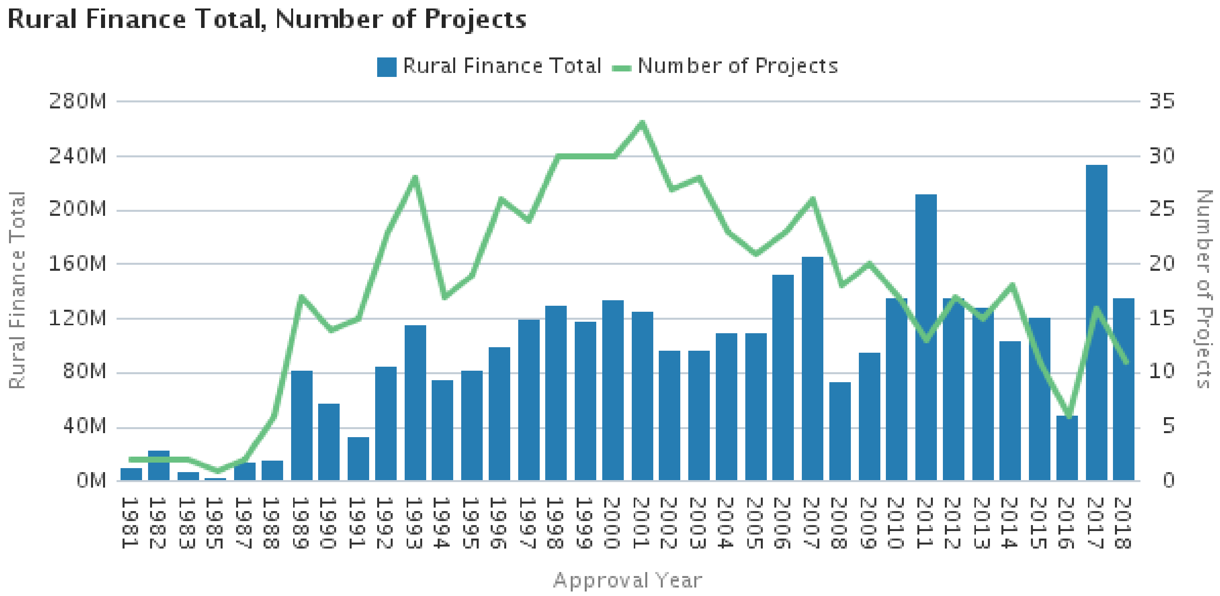
Additional supporting tables and figures for chapter IV

Figure 1
Total IFS funding and number of projects approved in IFAD



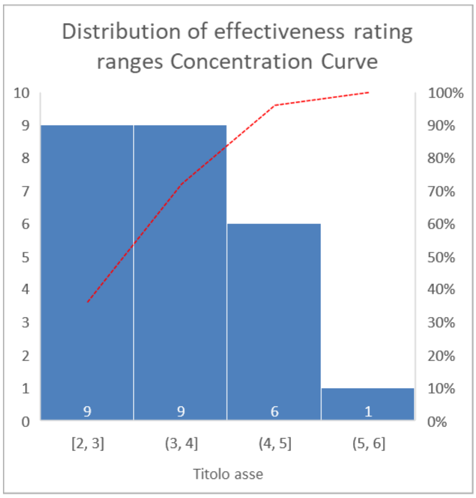
Source*:* Rural finance dashboard, accessed January 2019.

Figure 2
Total IFS funding and number of projects according to years



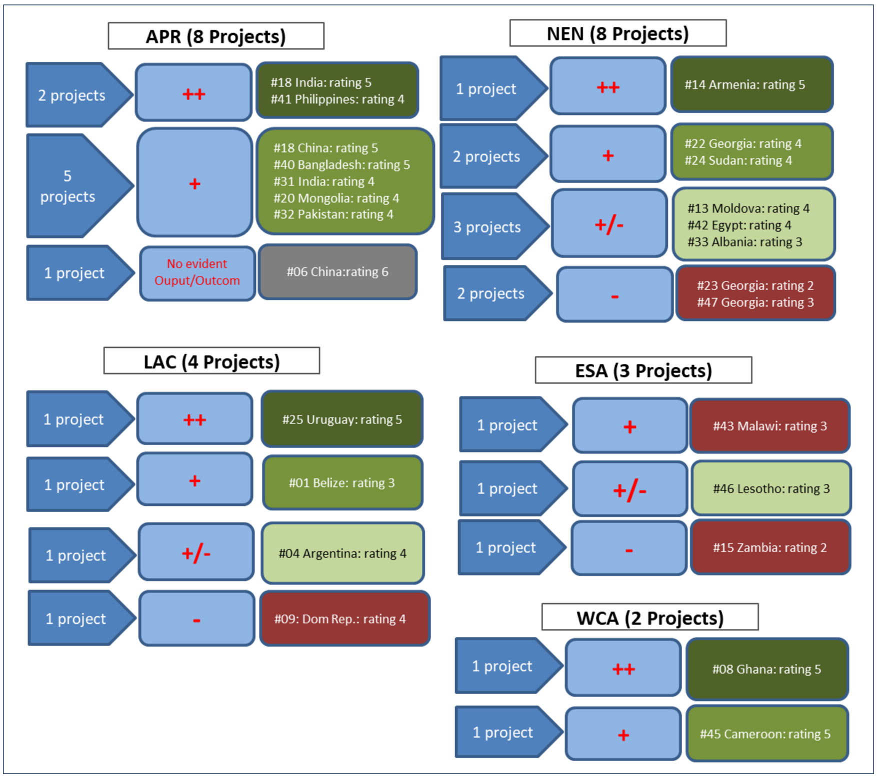
Sources*:* Rural finance dashboard, accessed January 2019.

Figure 3
Distribution of ratings in project sample



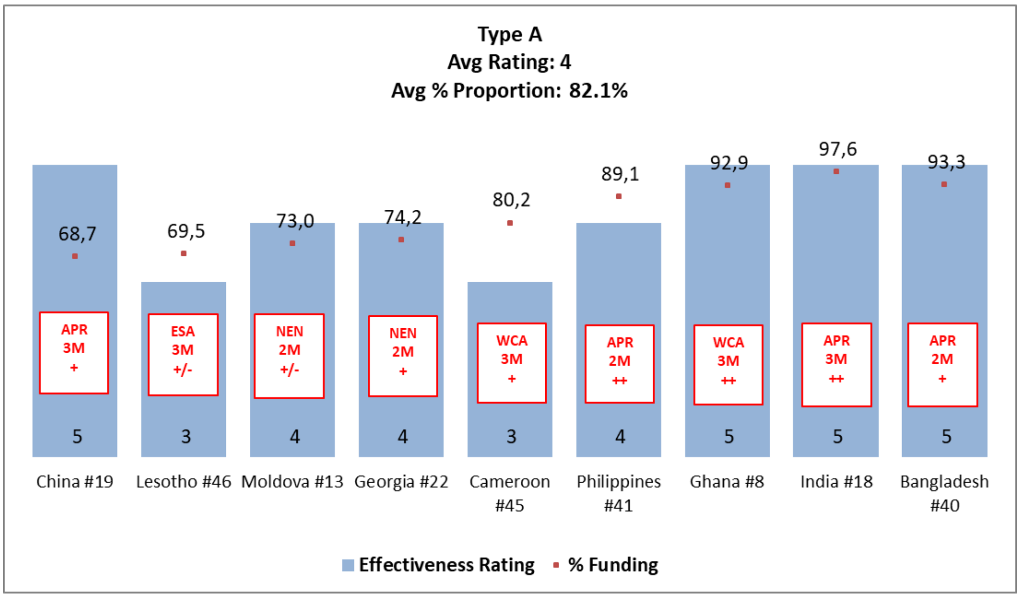
Source: synthesis report analysis of sample projects.

Figure 4
Achievement of IFS results according to projects and regional divisions



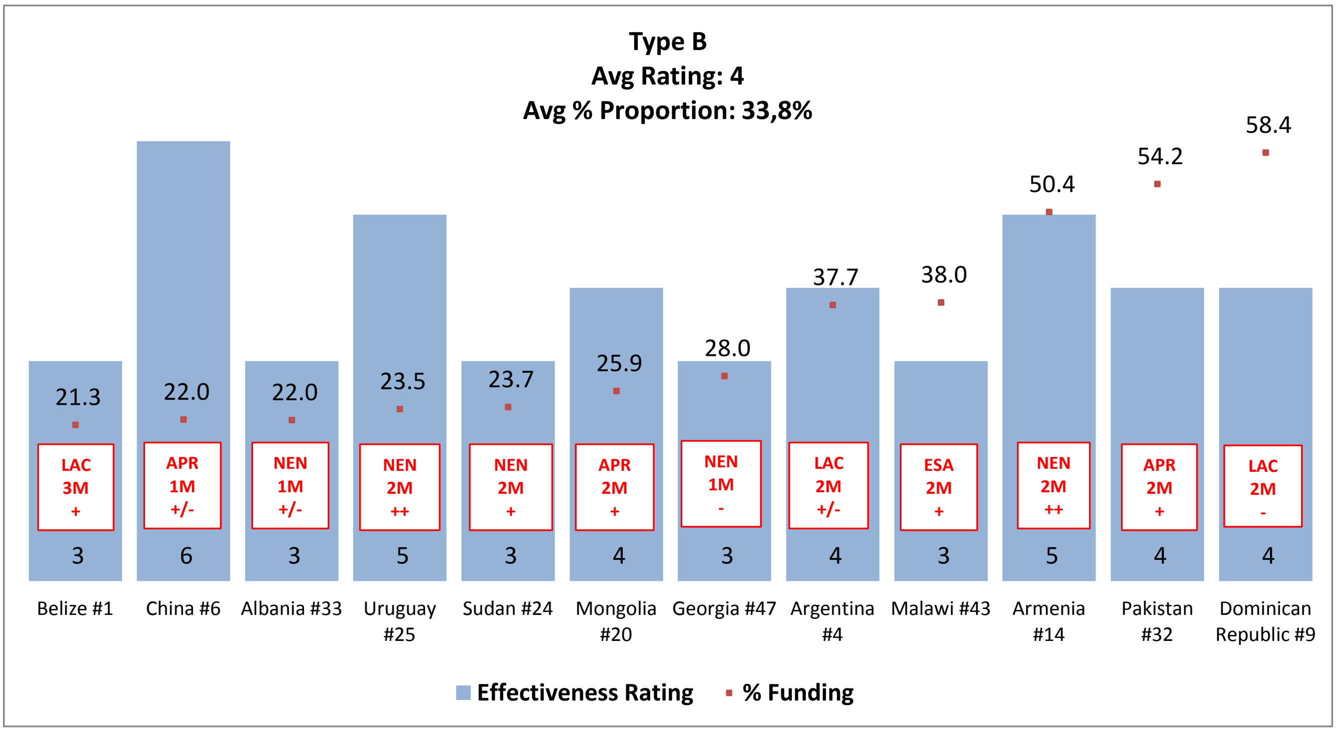
Source: synthesis report analysis of sample projects.

Figure 5
Type A projects – Effectiveness ratings, funding and IFS results



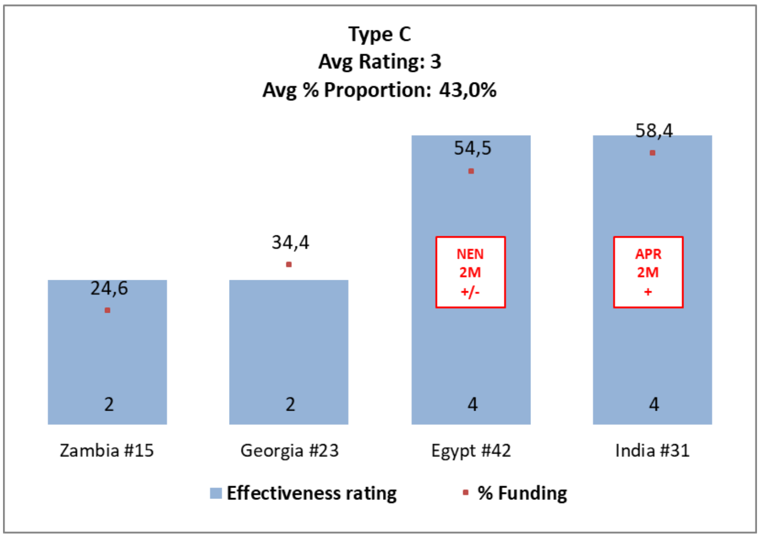
Source: synthesis report analysis of sample projects.

Figure 6
Type B projects – Effectiveness ratings, funding and IFS results



Source: synthesis report analysis of sample projects.

Figure 7
Type C – Effectiveness ratings, funding and IFS results



Source*:* ESR analysis of PPE sample.

Table 1
Documented IFS outputs and outcomes

		More effective projects	Less effective projects	
More Common	Improved loan provision	*High repayment rates*	Intended reforms not carried out/intended new	
		High repayment rates/improve profitability	Poor/underachievement of targeting	*Lack of transformation to fully functioning bank*
		New financial products and services	Bad Loan provisions	
	Staff Training	*Better loan recovery*		
		Bank-CBFO linkage through access to institutional credit facilities		
		Increased share of banks' portfolios in rural activities and increased focus on		
	Expanded Loan portfolio/New products and	*Linkages between informal-formal rural micro finance organizations*		
	Credit access to clients improved through credit			
	Favourable loan terms used for investments	*Funds raised from interest payments handed to producer groups*		
	Establishment and strengthening of MSMEs	*FS for microenterprises*		
Less Common	CBFO Strenghtened	*Better meso-level assistance to micro-level institutions*	Legislation and regulation changes delayed	*Financial health of Member-governed FSPs uncertain*
	Credit cooperatives established		Low performance of financial instruments	
	Expanded Loan portfolio	*High repayment rates*	IFS activities cancelled	
	Inputs into regulatory frameworks	*MFI programmes broadened*		
	Introduction group lending services	*Better loan recovery (60-88)*		
	Large Number of MSME Borrowers			
	Local credit committees created	*Associating in groups increased beneficiary networking with other*		
	Rotating funds created			

Source*:* ESR analysis of PPE sample.

Table 2
Documented Gender Results (synthesis report project sample)

Positive gender results	Gender rating	Overall achievements	Effectiveness rating
#09 Dominican Republic	N/A	-	4
#22 Georgia	5	+	4
#24 Sudan	5	+	3
#25 Uruguay	5	++	5
#31 India	5	+	4
#32 Pakistan	5	+	4
#40 Bangladesh	4	+	5
#41 Philippines	5	++	4
Negative gender results	Gender rating	Overall achievements	Effectiveness rating
#04 Argentina	N/A	+/-	4
#06 China	N/A	0	6
#13 Moldova	3	+/-	4
#14 Armenia	3	++	5
#19 China	4	+	5
#33 Albania	4	+/-	3
#42 Egypt	4	+/-	4
#43 Malawi	3	+	3
#47 Georgia	2	-	3
Mixed gender results	Gender rating	Overall achievement	Effectiveness rating
#08 Ghana	4	++	5
#20 Mongolia	5	+	4

Source*:* ESR analysis of PPE sample

Table 3
Documented results for the very poor (synthesis report project sample)

Positive results for the very poor	Overall achieve ments	Effectiveness rating	Rural Poverty Impact rating
#19 China	+	5	5
#43 Malawi	+	3	4
Negative results for the vey poor	Overall achieve ments	Effectiveness rating	Rural Poverty Impact rating
#04 Argentina	+/-	4	4,6
#33 Albania	+/-	3	4
#40 Bangladesh	+	5	4
#45 Cameroon	N/A	3	3
Mixed Results for the very poor	Overall achieve ments	Effectiveness rating	Rural Poverty Impact rating
#18 India	++	5	5
#20 Mongolia	+	4	4
#31 India	+	4	4

Source*:* ESR analysis of PPE sample

Table 4
Documented results on Impact (synthesis report project sample)

Positive results on Impact	Type	% Funding	Overall Achievements	Effectiveness rating	Rural poverty rating	IFS Target	Results for target groups	Model
#06 China	**B**	22	o	6	5	Poor smallholders	**+**	1M
#25 Uruguay	**B**	23,5	++	5	5	Smallholders	**+**	2M
#14 Armenia	**B**	50,4	++	5	5	MSMEs	**+**	2M
#09 Dom. Rep	**B**	58,4	-	4	4	Smallholders and MSMEs	**+**	2M
#19 China	**A**	68,7	+	5	5	Poor	**+**	3M
#46 Lesotho	**A**	69,5	+/-	3	4	Small-scale producers, poor, landless, women-led households, youth	**+**	3M
#13 Moldova	**A**	73	+/-	4	5	Larger enterprises	**+**	2M
#40 Bangladesh	**A**	93,3	+	5	4	Hard core poor, women and MSMEs	**+**	2M
#18 India	**A**	97,6	++	5	5	Poor	**+**	3M
#42 Egypt	**C**	54,5	+/-	4	5	Settlers, youth, smallholders, women	**+**	2M
#31 India	**C**	58,4	+	4	4	CBFO members	**+**	2M

Negative results on Impact	Type	% Funding	Overall Achievements	Effectiveness rating	Rural poverty rating	IFS Target	Results for target groups	Model
#33 Albania	**B**	22	+/-	3	4	Rural poor, MSMEs, landholders	-	1M
#47 Georgia	**B**	28	-	3	3	Economically active poor	**-**	2M
#32 Pakistan	**B**	54,2	+	4	4	Smallholders, landless, women	-	2M
#45 Cameroon	**A**	80,2		3	3	Smallholders, women and youth	**-**	3M

Mixed results on Impact	Type	% Funding	Overall Achievements	Effectiveness rating	Rural poverty rating	IFS Target	Results for target groups	Model
#01 Belize	B	21,3	+	3	4	Poor smallholder producers, women and youth (including indigenous peoples	o	1M
#24 Sudan	B	23,7	+	3	4	Women	o	2M
#04 Argentina	B	37,7	+/-	4	4,6	Agricultural groups, cooperatives, poor smallholders, women, youth, indigenous peoples	o	2M;1M
#41 Philippines	A	89,1	++	4	4	MSMEs	o	2M

Source: synthesis report project sample.

Table 5
Documented impact at institutional, sector, policy level for type A projects (ranked by % funding)

Impact on changes	% Funding	Type	Effectiveness rating	Overall Achievements	Rural poverty rating	Institutional Level	Sector Level	Policy Level	Model	Sub-Model
#18 India	97,6	A	5	++	5	+	+	+	3M	3M MFI-NGOs and CBFOs
#40 Bangladesh	93,3	A	5	+	4	+	-		2M	2MesoMicro MFI-NGOs
#08 Ghana	92,9	A	5	++	4	+	+	+	3M	3M Banks, MFI-NGOs, Member-governed FSPs and CBFOs
#41 Philippines	89,1	A	4	++	4	+	+		2M	2MesoMicro MFI-NGOs
#45 Cameroon	80,2	A	3		3	o	-		3M	3M Banks, MFI-NGOs and CBFOs
#22 Georgia	74,2	A	4	+	4	+	o		2M	2MesoMicro Banks and MFI-NGOs
#13 Moldova	73	A	4	+/-	5	+	+	+	2M	2MesoMicro Banks and MFI-NGOs
#46 Lesotho	69,5	A	3	+/-	4	+			3M	3M State banks and Member-governed FSPs
#19 China	68,7	A	5	+	5	+	+	**Maybe**	3M	3M Member-governed FSP

Source: synthesis report project sample.

Table 6
Documented Impact at institutional, sector, policy level for type B projects (ranked by % funding)

Impact on changes	% Funding	Type	Effectiveness rating	Overall Achievements	Rural poverty rating	Institutional Level	Sector Level	Policy Level	Model	Sub-Model	
#09 Dominican Repu	58,4	B	4	-	4	+			2M	2MesoMicro Member-governed FSPs	Matching grants
#32 Pakistan	54,2	B	4	+	4	-			2M	2MesoMicro CBFOs	
#14 Armenia	50,4	B	5	++	5	+	+		2M	2MesoMicro Banks	
#04 Argentina	37,7	B	4	+/-	4,6	**1M+; 2M-**			2M; 1M	1Micro Banks	2MesoMicro Member-governed
#47 Georgia	28	B	3	-	3	+			1M	1Micro MFI-NGOs and Leasing companies	
#20 Mongolia	25,9	B	4	+	4	+	+		2M	2MesoMicro Banks, Member-governed FSPs and CBFOs	
#24 Sudan	23,7	B	3	+	4	+			2M	2MesoMicro CBFOs	
#25 Uruguay	23,5	B	5	++	5	+	+	+	2M	2MesoMicro CBFOs	
#06 China	22	B	6	o	5	+			1M	1Micro Banks	2MesoMicro Member-governed
#33 Albania	22	B	3	+/-	4	-	+		1M	1Micro Banks	
#01 Belize	21,3	B	3	+	4	+		+	1M	1Micro Member-governed FSPs	

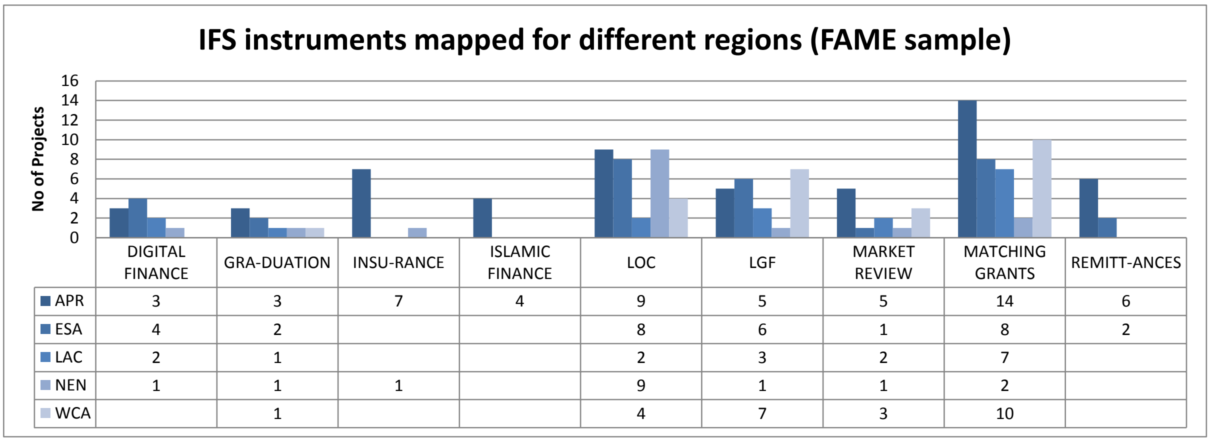
Source: synthesis report project sample.

Table 7
Documented impact at institutional, sector, policy level for type C projects (ranked by % funding)

Impact on changes	% Funding	Type	Effectiveness rating	Overall Achievements	Rural poverty rating	Institutional Level	Sector Level	Policy Level	Model	Sub-Model
#23 Georgia	34,4	C	2	-	2	-			1M	1Micro Banks and Member-governed FSPs
#42 Egypt	54,5	C	4	+/-	5	o			2M	2MesoMicro Member-governed FSPs and CBFOs
#31 India	58,4	C	4	+	4	+			2M	2MesoMicro CBFOs

Source: synthesis report project sample.

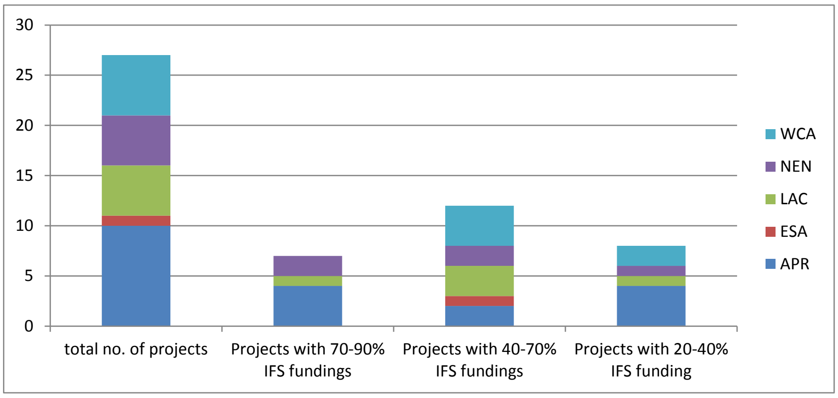
Figure 8
IFS instruments mapped in the FAME dashboard according to regions



	DIGITAL FINANCE	GRA-DUATION	INSU-RANCE	ISLAMIC FINANCE	LOC	LGF	MARKET REVIEW	MATCHING GRANTS	REMITT-ANCES
APR	3	3	7	4	9	5	5	14	6
ESA	4	2			8	6	1	8	2
LAC	2	1			2	3	2	7	
NEN	1	1	1		9	1	1	2	
WCA		1			4	7	3	10	

Source: FAME dashboard (2018).

Figure 9
IFS Projects with IFAD performance rated fully satisfactory (5) or better



Source: ESR analysis.

Correlation analysis

Correlation coefficients measure the strength of association between two variables and their sign and absolute value describe the direction and the magnitude of their relationship. The greater the absolute value of a correlation coefficient, the stronger the linear relationship. Correlation coefficients have a value of between -1 and 1 and the closer the value is to +1, the stronger the linear relationship. A "0" means there is no relationship between the variables at all, while -1 or 1 means that there is a perfect negative or positive correlation.

The following analysis is based on the information available on the sample of **23 projects** selected for the synthesis report on IFS for the rural poor. It correlates the documented IFS results with the financial instruments and FSPs used.

	Documented results in PPE sample (n=23)							Financial instruments documented in PPE sample (n=23)							
	Overall achievements (n=23)	Gender results (n=23)	Outreach to the very poor (n=23)	Impact on target groups (n=23)	Institutional Level impacts (n=23)	Sector Level impacts (n=23)	Policy Level impacts (n=23)	Institutional Capacity Building (n=15)	Equity (n=9)	Retail Financing (Banks) (n-12)	Linkage (n=2)	Fomalisation (n=3)	Value Chain Financing (n=4)	Matching Grant (n=2)	Credit Line (n=15)
Overall achievements	1.00														
Gender results	0.14	1.00													
Outreach to the very poor	0.15	0.10	1.00												
Impact on target groups	0.09	-0.09	0.18	1.00											
Institutional Level impacts	0.10	-0.26	0.18	0.57	1.00										
Sector Level impacts	0.42	-0.13	0.26	-0.01	0.10	1.00									
Policy Level impacts	0.37	-0.20	0.09	0.24	0.29	0.43	1.00								
Institutional Capacity Building	0.23	0.16	-0.13	0.01	-0.40	-0.20	-0.28	1.00							
Equity	0.20	0.37	0.14	0.32	-0.12	0.14	0.01	0.21	1.00						
Retail Financing	-0.04	0.61	-0.17	-0.02	0.02	-0.34	-0.13	-0.15	0.23	1.00					
Linkage	0.25	-0.31	-0.25	-0.11	-0.07	0.08	-0.16	0.23	0.07	-0.32	1.00				
Fomalisation	0.10	-0.10	0.07	-0.14	-0.40	0.22	0.11	0.01	-0.05	-0.40	-0.12	1.00			
Value Chain Financing	0.24	-0.47	-0.15	-0.01	0.25	0.33	0.04	-0.15	0.10	-0.02	0.27	-0.18	1.00		
Matching grant	-0.45	0.25	-0.25	-0.11	-0.32	0.08	-0.16	-0.10	0.07	-0.01	-0.10	0.34	-0.14	1.00	
Credit line	-0.28	-0.18	0.06	0.13	0.32	-0.04	-0.06	-0.15	-0.54	-0.15	-0.10	0.01	-0.15	0.23	1.00

Source*:* ESR analysis of project sample.

	Documented results in PPE sample (n=23)							Financial service providers								
	Overall achievements (n=23)	Gender results (n=23)	Outreach to the very poor (n=23)	Impact on target groups (n=23)	Institutional Level (n=23)	Sector Level (n=23)	Policy Level (n=23)	*Commercial Banks (n=8)*	*CBFOs (n=12)*	*Credit Unions or SACCO (n=7)*	*Apex (n=9)*	*Government Scheme (n=3)*	*MFI/NGOs (n=8)*	*Project Scheme (n=2)*	*State Bank (n=7)*	*Loan Guarantee (n=4)*
Overall achievements	1.00															
Gender results	0.14	1.00														
Outreach to the very poor	0.15	0.10	1.00													
Impact on target groups	0.09	-0.09	0.18	1.00												
Institutional Level	0.10	-0.26	0.18	0.57	1.00											
Sector Level	0.42	-0.13	0.26	-0.01	0.10	1.00										
Policy Level	0.37	-0.20	0.09	0.24	0.29	0.43	1.00									
Commercial Banks	-0.03	-0.32	-0.24	-0.01	0.26	0.20	0.06	1.00								
CBFOs	-0.04	0.29	-0.17	-0.02	-0.11	-0.03	0.08	0.52	1.00							
Credit Unions or SACCO	-0.37	-0.28	0.11	0.15	0.36	-0.07	-0.12	0.11	-0.12	1.00						
Apex	0.40	0.53	-0.22	-0.04	-0.26	-0.18	0.01	-0.21	0.41	-0.53	1.00					
Government Scheme	-0.20	-0.22	-0.19	0.21	0.21	-0.01	-0.20	0.53	0.11	0.30	-0.31	1.00				
MFI/NGOs	0.18	0.01	0.13	-0.01	0.40	0.20	0.28	0.04	-0.21	-0.28	-0.02	-0.28	1.00			
Project Scheme	0.08	-0.03	-0.25	0.10	0.17	0.08	0.21	0.10	0.30	0.13	0.07	0.34	-0.23	1.00		
State Bank	-0.16	0.58	0.11	0.28	-0.23	-0.24	-0.12	-0.28	0.44	-0.03	0.44	0.02	-0.48	0.13	1.00	
Loan Guarantee	-0.54	-0.26	-0.15	0.31	0.25	-0.08	0.04	0.39	0.21	0.44	-0.37	0.50	-0.09	0.27	0.20	1.00

Source*:* ESR analysis of project sample.

	impact on target group	Impact on institutions	Impact on sector	Impact on policy	3M (n=5)	2M (n=13	1M (n=5)	RF amount (n=23)	Share of funding (n=23)
impact on target group	1.00								
Impact on institutions	0.51	1.00							
Impact on sector	0.21	0.07	1.00						
Impact on policy	0.24	0.26	0.42	1.00					
3M (n=5)	-0.04	0.06	0.11	0.23	1.00				
2M (n=13	0.31	0.23	0.08	-0.18	-0.60	1.00			
1M (n=5)	-0.19	-0.34	-0.05	-0.02	-0.28	-0.39	1.00		
RF amount (n=23)	0.36	0.15	0.06	0.25	0.33	-0.05	-0.24	1.00	
Share of funding (n=23)	0.20	0.18	0.03	0.14	0.56	0.02	-0.54	0.58	1.00

Source: ESR analysis of project sample.

IFS Grants, knowledge and lessons learned

Table 1
Global and regional grants and partnerships and results

Type and duration	*Recipient and partners, goal*	*Themes, components, main activities*	*Beneficiaries and region*	*Comments during synthesis report*
Small Grant **(2009 – 2011)**	**Improving Capacity Building in Rural Finance (CABFIN)* - the Rural Finance and Investment Learning Centre (RFILC) implemented by FAO**	- Enhanced agricultural finance innovations and knowledge management, which includes position papers and other thematic documents and learning tools by the CABFIN partnership. - Improved and increased access to materials, thematic papers in an organized, searchable on-line database. - Increased interactive online learning facilities, including ready-to-use courses and training information. - Increased uptake and use of materials through projects, training institutions, e-mail lists, networks and associations concerned with rural and agricultural finance.	Individuals and organizations, financial institutions, development practitioners, academic institutions, policy-makers and donors who seek to improve their own knowledge and that of others in the field of agricultural and rural finance. Global.	Among others, RFILC platform was established
Small Grant (2013-2016)	**CABFIN (and RFILC)**** **implemented by FAO** in collaboration with APRACA, the African Rural and Agricultural Credit Association and FOROLACRF "The goal was to train development practitioners to improve interventions aimed at increasing access to finance"	Inclusive Rural Finance with three components: 1) Develop or strengthen evidence-based approaches to policy making that promote access to rural and agricultural finance. 2) Translate policy guidance into practical recommendations for development practitioners to apply in programmes through training and capacity-building projects and programmes. 3) Develop an easily accessible, user-friendly web platform – the Rural Finance and Investment Learning Centre (RFILC) – where knowledge generated through the project is made publicly available.	Global	Three regional studies about smallholder finance, analysis of 32 innovative finance and investment ventures Re-designing of web-platform of the RFILC Training courses
Large Grant **(2006 -2011)**	**PAMIGA - Participatory Microfinance Group for Africa:** RuralFin, Swiss Development Cooperation, other donors, MFIs	(i) Build sustainable rural finance institutions with outreach to the rural poor; and, (ii) Foster stakeholder participation in the development of effective rural finance strategies.	Mali, Burkina Faso, Cameroon, Benin, Senegal and Madagascar in 2006. In 2007 the focus will be on East Africa (e.g., Ethiopia, Kenya, Tanzania)	
Large Grants **2007 -2010**	**MIX Market***** **Three consecutive grants**	Increase the transparency of information in the microfinance sector (IFAD's FSP partners) - Ensure that IFAD's rural finance partners have the capacity to generate and use performance indicators	MFIs 250 PMUs	Increased the number of FSPs with available data on MIX Market by 500 to 2,500. Expansion of reporting on the MIX

2011 - 2014		- Improve aid effectiveness, responding to the recommendations - of the CLE, Rural Finance Policy, CGAP Microfinance Donor Peer Reviews in 2002 and 2005, and Independent External Evaluation in 2005		Market filled a data gap in rural finance market information, and IFAD monitoring and evaluation Training to 20 national associations, regional and thematic analysis publications *Note: The MIX Market partnership was not renewed in 2015, capacity building in performance measurement in partner FSPs was not continued due to a high-level decision in IFAD*
Small Grant (2015-2017)	**Fundación Capital (FundaK)****** Implemented with Skoll Foundation, Gates Foundation, Swift Foundation, Irish Aid "To enhance operational and policy dialogue effectiveness in financial inclusion and livelihoods improvement strategies in selected African countries for the benefit of the rural poor who are IFAD's main target group"	Expanding and scaling-up innovative financial inclusion and graduation strategies and tools in Africa Knowledge management to raise awareness among CPMs, policymakers etc. and dissemination.	Farmers and indigenous people in East and West Africa (Tanzania, Mozambique, and The Gambia)	See Box
Large grant **(2017- 2020)**	**Canadian Cooperatives Association** in Africa in partnership with African Confederation of Co-operative Savings and Credit Association and Irish League of Credit Unions Foundation	Types of innovations envisaged are products e.g. agricultural credit, youth savings; outreach and services e.g. digital financial services; linkages with MFIs and remittances providers; operating model e.g. linkages with/creation of second-tier organizations		New grant
Large grant **(2017-2020)**	**Microinsurance Centre**	Managing risks for rural development: promoting microinsurance innovations Component 1. Mapping and diagnostics to develop insurance markets for low income people in rural areas • Map and assess existing insurance market for poor people in rural areas • Assess feasibility of developing insurance markets • Diagnose challenges and capacity gaps Component 2. Innovations to increase access to insurance	China, Georgia, Ethiopia	New grant

		(informed by Component 1) • Develop or scale-up innovations e.g. bundling of insurance with other financial and non-financial services (credit, remittances, inputs; healthcare services; inputs); delivery of MFI loan-portfolio insurance; package within the value chain (buyers, processors); use of mobile phone technology; product innovations where relevant • Monitoring and Evaluation: collect and report on data on access client feedback etc. to inform Component 3 Component 3. Knowledge management and capacity building (informed by Components 1 and 2) • Offer capacity building and sensitization (e.g. for governments, IFAD partner institutions); • Deliver more specific knowledge products and capacity building to fill identified gaps or improve long-term sustainability • Share knowledge between countries/regions targeted (workshops and/or exchange visits) • Share lessons amongst IFAD-managers, other donors and decision makers Identify public-good lessons to inform the global insurance sector and governments		
Large Grant **(2014-2016)**	**3rd CGAP** The project will be closely linked with ongoing and planned former PTA grant funded projects for synergy effects on a number of topics (e.g. CABFIN, MIX, PAMIGA, Fundación Capital).	Developing inclusive financial systems for improved access to financial services in rural areas • Increasing the awareness of the broad array of financial services needs of smallholder and other rural families in order to improve the delivery, outreach, and sustainability of such services. • Researching and disseminating related lessons on how best to serve the extreme poor in rural areas (graduation) • Fostering a supportive policy framework for rural finance. • Supporting linkages with centers of excellence in rural finance, including CGAP regional hubs.	All countries with IFAD portfolio interventions in rural finance	
Large grant **2017 – 2022** **(5 years)**	**4th CGAP** **(follow-on grant)**	Three pillars: I. Financial inclusion focusing on vulnerable groups, such as migrants, refugees and Internal Displaced People (IDP), women, and youth, particularly in sub-Saharan Africa.	Africa, Asia	*New grant*

		II. Digital financial solutions for smallholder families (farming and rural enterprising). III. Guidance, strategic inputs, and capacity building support to IFAD’s in-country operations. IFAD operational teams as well as the Thematic Group of Rural Finance will directly benefit from this grant as they make strategic investment decisions with partners and FSPs to implement high-quality country portfolios.		
Large Grant **2017 – 2019**	**Consortium for Entrepreneurship and Employment for Youth Access to Financial Services (CEEYAFS) comprised of** • Global Youth Innovation Network (GYIN) as the lead recipient with legal capacity • Latin American Youth Center as the financial administrator & manager • Columbia Business School • Susterra Inc. • Believe Green • Arizona State University • Ashoka • Enactus • International Labor Organization Jain Irrigation Systems • National Implementing Partners	Scaling-up rural youth access to inclusive financial services for entrepreneurship and employment in East Africa Zo enhance the current process of raising start-up/scale up capital for rural youth enterprises by mitigating financial institutions risks, increasing interactions with industry experts, acquiring new knowledge and sharing success stories. ● Objective 1: To build the capacity of youth organizations to design and deliver entrepreneurship training, mentorship, business development services, and partnership services to support youth entrepreneurs in rural areas of East Africa. ● Objective 2: To build the capacity of local financial institutions to provide alternative start up and scale up capitals through risk assessment and mitigation, and to develop and deliver youth-inclusive financial tools to rural youth in Burundi, Kenya, Rwanda and Uganda. ● Objective 3: To consolidate and share learning from the project through practical knowledge products, communities of practice, and events that will support the scaling up and replication of successful youth-led venture creation and business development for rural youth ages 21-35 years in Kenya, Burundi, Rwanda, and Uganda.	Burundi, Kenya, Rwanda, and Uganda	*New grant*

Source*:* ESR compilation of grants documents.
* The CABFIN Partnership, as a working group of donors and development agencies – FAO, GTZ/BMZ, IFAD, World Bank – on rural and agricultural finance aiming to promote and facilitate capacity building and knowledge management in rural financial systems, supports the idea to develop a “third paradigm shift” in agricultural finance (from Grant Document 2008). Notably, as of 2018, UNCDF is also a partner.
** IFAD, Grant Results Sheet Enhancing the CABFIN partnership’s delivery of policy guidance, capacity development and global learning to foster financial innovations and inclusive investments for agricultural and rural development (2017)
*** IFAD. Grant Results Sheet Improving performance monitoring and effectiveness in rural finance (2017).
**** IFAD. Grant Results Fact Sheet The Outreach Project (2018).

Table 2
Rural finance trainings and other events since 2012

Event
September 2012: KfW and Blue Orchard presentation of MIFA Debt Fund: Microfinance Initiative for Asia and Asian Rural Biogas Initiative
November 2012: Weather index-based insurance: What is it and how to use it?
19-20 December 2012: Two day rural finance learning event - Triodos Facet (see agenda attached)
January 2013: Weather index insurance (contribution to Malawi Week in IFAD headquarters)
February 2013: Two day rural finance learning event - Triodos Facet (repeat of above event)
February 2013 Satellite imagery and GIS mapping for IFAD projects: Learning event
January 2014: e-learning facilitated course: Performance Monitoring and Analysis of Financial Service Providers with the MiX (in English)
February 2014: Index insurance learning event as part of the Global Staff Meeting
July 2014 Brown bag: financial inclusion interactive maps and data
November 2014: e-learning facilitated course: Performance Monitoring and Analysis of Financial Service Providers. With the MiX (in English and French)
November 2014: e-learning facilitated course: Understanding the Market for Financial Inclusion Projects. With the MiX.
December 2014: Remote sensing for index insurance. Evaluation Committee workshop
March 2015: training on Performance Monitoring and Analysis of Financial Service Providers with the MIX for IFAD project staff and partners (Sierra Leone – 200 participants)
October 2015: Financial Graduation - Graduation Models for Rural Financial Inclusion/ IFAD's experience to-date in financial graduation/Promoting financial inclusion of the rural poor at large scale/ Strengthening the New Generation of Social Protection Policies
October 2015: Appropriate warehousing and collateral management systems in Sub-Saharan Africa
December 2015: Technical workshop on remote sensing and index insurance in Senegal
February 2016: Walking the tightrope: risk management and insurance for smallholders
June 2016: Webinar with FAO - Agricultural index insurance: overcoming challenges for scale and sustainability
June 2017: Webinar with FAO and GIZ – Risk transfer and Insurance for Rural Resilience
June 2017: Financial cooperatives: lessons from IFAD's portfolio

Source*:* Data from FAME.

Table 3: CGAP – IFAD Smart Aid Assessments 2009 and 2013

Table 3.1
Smart AID indicators

SmartAid for Microfinance Index Indicators			
Strategic Clarity	**1**	Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints	15%
Staff Capacity	**2**	Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project/investment cycle	15%
	3	Funder invests in microfinance/access to finance human resources	10%
Accountability for Results	**4**	Funder has a system in place that flags all microfinance programs and components	10%
	5	Funder tracks and reports on performance indicators for microfinance programs and components	10%
	6	Funder uses performance-based contracts in its microfinance programs and components	10%
	7	Funder regularly conducts portfolio reviews	10%
Knowledge Management	**8**	Funder has systems and resources for active knowledge management for microfinance	10%
Appropriate Instruments	**9**	Funder has appropriate instrument(s) to support the development of local financial markets	10%

Source: CGAP Smart Aid of IFAD 2009.

Table 3.2
CGAP – IFAD Smart Aid Results 2009 and 2013

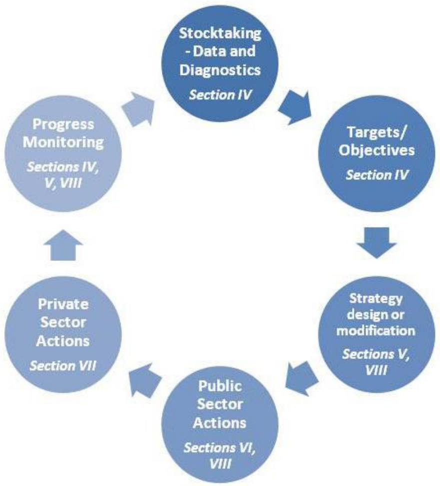
	Indicator	2009	2013
Strategic clarity	1. Policy and Strategy in line with good practices	+ New rural finance policy and up-coming decision tools + Regional strategies: MENA, West Africa setting benchmarks/ following good practices + Quality assurance of project design + By promising FIs implemented	**3.9/5. Strategic framework** is based on the corporate evaluation (2007) and the Rural Finance Policy (2009), both of which capture lessons, key principles and good practices in microfinance. **- good at central level – but weaker at regional/national level**
Staff capacity	2. Dedicated micro-finance specialists	headquarters - **Overstretched and understaffed focal point (former PTA, FAME)** - Little expertise outside focal point - Too few for very large portfolio (4) Regions: lacking	**3.1/5. Quality assurance:** more former PTA involvement, earlier, quality enhancement process, project diary **Still very overstretched IFS staff compared to portfolio** - Carry out 15 rural finance thematic workshops p.a. - CGAP, MIX to train staff
	3. Invests in HR on A2f	Several CPMs and project staff training programmes, CABFIN, partnerships with others	Little evidence of efforts to introduce CPMs and project staff regularly to a2f knowhow (decentralized structure) Implementation support weak (project partners in charge)
Accountability	4. System that flags all programs and components		
	5. Performance indicators for all programmes and components	+ Performance indicators for retail FIs but: - Performance reporting weak (MIX limited, no M+E system) - Many FSPs not captured by MIX - No performance indicators for meso and macro - RIMS weak	
	6. Perf.-based contracts	- Not used for government of MFIs	
	7. Regular portfolio reviews	Regular reviews: CLE 2007, regional reviews	
Knowledge management	8. Systems and resources for knowledge-management	Project and Portfolio Management System Rural Finance Thematic Group (FAO, WFP, other Rome-agencies) - **Few opportunities for sharing knowledge between Rome and project staff**	

Appropriate instruments	9. Instruments to support dev. of local fin. markets	- rural finance components – manually filtered, different criteria? - Performance reporting	- Policy support requires more attention/guidance
Overall		- **Grave mismatch between rural finance team and volume of portfolio (4 persons)** - **Very strong focus on credit components**	IFAD's strengths in supporting retail FSPs (not other levels)

Source*:* IFAD SMART AID reports 2009 and 2013.
WFP: World Food Programme

Table 4
International Good Practice – chronological and institutional

Year	*Source*	*Title*	*Key content, highlights from the content*
2006	CGAP	Good practice Guidelines for Funders of Microfinance (pink book)	- 11 Key principles - Engagements at three levels - Performance indicators for retail FIs - Frontier issues: remote rural poor, delivery technology, domestic funding, graduating the poorest (after that became all mainstream since 2006) - Lessons for donors to be effective (page 78)
2010	GPFI Action Plan (revised 2017 and 2017)	G20 Financial Inclusion Action Plan	- 9 principles of Innovative Financial Inclusion - National Financial Inclusion strategies - National policies should set concrete financial inclusion targets - Targets based on sound analysis of client level
2010	Alliance for Financial Inclusion		Thematic working group along the financial inclusion policy areas AFI promotes (groups as of 2018): • Consumer Empowerment and Market Conduct (CEMC) Working Group • Financial Inclusion Strategy (FIS) Peer Learning Group; • Financial Inclusion Data (FID) Working Group; • Proportionate Application of Global Standards (GSP) Working Group; • Digital Financial Services (DFS) Working Group; • SME Finance (SMEF) Working Group
2010	FAO	Agricultural Value Chain Finance	Tools and Lessons: - Understanding Agricultural VCF - Business Models - Instruments - Innovations - Lessons and recommendations
2010	FAO	Agricultural Investment Funds	Approach of a targeted fund
2011	GPFI, IFC	Scaling Up Access to Finance for Agricultural SMEs Policy Review and	Key conclusions: - Developing Country Specific Diagnostics and Strategies - Developing a Supportive Legal and Regulatory Framework

Year	*Source*	*Title*	*Key content, highlights from the content*
		Recommendations	- Designing Effective Government Support Mechanisms - Strengthening the Financial Infrastructure - Building Consistent and Reliable Data Sources - Building Capacity of Financial Institutions and Their Clients
2012	World Bank	National Financial Inclusion Strategies – Reference Framework (and other docs)*	
2013	World Bank Group (IEG)	Financial Inclusion: A Foothold on the Ladder toward Prosperity?	Do financial services help fight poverty? - Financial services other than credit are proving to have equal if not higher benefits for the poor (p.20) Criticism (p. 20) - Too many components and sub-components - Low usage rate of indicators in M+E - Subsidies (investments, even interest rates) Positive - Increasing share of World Bank?-finance goes to other financial products

Year	*Source*	*Title*	*Key content, highlights from the content*
			Main recommendations: • Clarify the World Bank Group's approach on financial inclusion by making it evidence-based and comprehensive, focused on enabling access to a range of financial services with benefits for the poor in a sustainable manner and specifying when and how to use subsidies. • Find and replicate innovative delivery models through a sequenced and evidence-based approach to innovation. • Strengthen partnerships by advocating clear strategies, results frameworks, and monitoring and evaluation arrangements. • Implement new tools in country-level diagnostics and strategy to guide financial inclusion work.
2015	CGAP	Funders Guidelines** (updated)	A market systems approach: • E.g. In a market systems approach, diagnostics seek to go beyond symptoms to identify the root causes of the problem: the market dynamics that prevent the poor and low-income people from accessing and using financial services.
2015	G20-GPFI	Synthesis Report New Trends in Agricultural Finance***	Policy Recommendations: A. Understanding market dynamics and implications. B. Importance of value chains – a key ingredient for growth and scale. C. Digital technology as a potential game changer. D. Public support and subsidies can be helpful, at many levels – but be SMART with them. E. Build technical and human capacity at all levels. F. Supporting dialogue and partnership of all actors (including PPPs). G. Invest in better data. H. Good governance/good overall legal framework is essential. I. Support the mainstreaming of women and minorities. Annex 1 - Key lessons from Research and Roundtable Discussions: Understanding demand, financing for women, digital technology, Agri VCF, Agric. Insurance

Year	*Source*	*Title*	*Key content, highlights from the content*
2016	Initiative for Small-holder Finance****	Inflection Point: unlocking growth in the era of farmer finance	Chapter 5: increased capital needs to come with absorptive capacity among FSPs “require that the smallholder finance industry move toward a future in which FSPs engage closely with customers to design and offer appropriate, desirable products through integrated and innovative partnerships supported by more and smarter subsidy” Kea areas to unlock progress: customer centric product design, progressive partnerships, and smart subsidy to unlock capital
2017	BMZ	Positionspapier Agrarfinanzierung	The German Ministry’s strategy for agricultural finance (German only)
2017	FAO / CABFIN	Innovative risk management in rural and agricultural Finance – Asian experience	• Combine finance, risk management and access to markets • Diversify menu of financial services offered • Diversify rural client base served
2017	GPFI	G20 Financial Inclusion Action Plan	Four action areas: - Small and medium-sized enterprise (SME) Finance - Regulation and standard-setting bodies - Financial consumer protection and financial literacy - Markets and payment systems Cross-cutting themes: - G20 High-Level Principles of Digital Financial Inclusion to promote the expansion of innovative solutions to increase digitization of financial services while ensuring customer protection and promoting financial literacy and capability; - Engagement with the private sector and collaboration across sectors–the private sector, governments, and relevant global bodies considering challenges / opportunities presented by digitization; - Support for efforts for data harmonization and the use of data for policy-making; - Expansion of financial services among the hard-to-reach segments of the population, particularly targeting underserved and vulnerable groups; and - Advance women’s economic empowerment -
2018	CGAP	CGAP Strategy VI*****	CGAP places effort and resources in the following areas: • Shift emphasis from financial access toward well-being - Expand consumer protection initiatives to encompass an approach that requires financial services providers and policy makers to consider product suitability and fair treatment of customers. • Focus on excluded segments - Identify and help groups most affected by the increasing digital divide, including rural women, smallholders, youth and migrants. • Explore connected market infrastructure - Determine ways market infrastructure can be opened through interoperability and Open

Year	*Source*	*Title*	*Key content, highlights from the content*
			Application Program Interfaces, enabling more businesses to deliver services and innovative products to the poor. • Understand the role of data - Explore how the digital collection of data presents opportunities for inclusive business models and develop new consumer-focused approaches for managing data protection and privacy risks. • Recognize the role of Big Techs - Deepen the understanding, including regulatory implications, of new technologies and business models as global players such as Google Inc, Facebook and Alibaba enter the financial services space.

Source*:* ESR compilation.
IFC: International Finance Corporation
* http://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-strategies-resource-center.
** CGAP (Consultative Group to Assist the Poor). 2015. A market systems approach to financial inclusion. Guidelines for funders. Washington, D.C., CGAP.
*** G20 and GPFI, by BMZ, GIZ, SME Finance Forum and IFC. 2015.
**** Initiative for Smallholder Finance (Dalberg, Master Card Foundation, R & Agri Learning Lab, USAID).
***** https://www.cgap.org/news/cgap-launches-new-five-year-strategy.

Table 5
Detailed assessment of IFAD's rural finance policy

Citation, or theme	*Comment*
Chapter 1: New challenges and opportunities	
Reference to global trends: globalization of financial markets, trade liberalization, the volatility of food and agricultural commodity prices, the continuing transformation of the agricultural and rural sector, and greater climatic uncertainty	Generally, the trends still valid but fragility of states not mentioned
Mentioning of digitalization in finance: cell phones, and changing landscape of rural finance – with new types of FSPs and innovative technologies	Digitalization of finance business not covered as a revolutionary development Is important for reaching the rural poor, remote and smallholders, and VCF Threat of a digital divide, “digital finance” came only up later
Rural finance sector has matured - Financial market may be distorted from subsided targeted lending - But financial institutions may be hesitant to serve the agricultural sector	**In which ways has rural finance matured in past decade?** All is written (citation from interview) Targeted lending is less common, but lending to agricultural sector is still a huge challenge
The contemporary approach to rural finance focuses on building the sustainability of financial service providers, thinking beyond the short life cycle of donor-driven projects. Strong rural institutions and models present promising partnerships and business opportunities for commercial banks to become more involved in rural finance, thereby scaling down their services with products tailored to poor and marginalized households, often through a partnership with a community-based institution.	
Opportunities: IRFS central of INFDS mandate	Relevance of rural finance confirmed Focus on knowledge sharing in rural finance
Chapter 2: Defining rural finance	
rural finance: target group • for agricultural and non-agricultural activities among households and institutions • full range of financial series that farmers and rural households require • Small-scale business operators • Women, young people, indigenous peoples and very poor households FSPs = traders and agro processing companies	**Focus on “poor rural households – poor rural men and women”:** Where are the firms (only small scale)? Mentioned as FSPs. - Those which create employment and market opportunities? - Segmentation of target group - No mentioning of VC stakeholders
Chapter 3: Objectives of the Rural Finance Policy	
Target group: Focus on small-scale producers Rural poor and smallholder farmers New approach “diverse range of responsive and relevant financial services“ is derived from the	New IFAD Strategic Framework – now outdated New policies: • Rural Transformation Report

IFAD Strategic Framework 2007 - 2010 Reference to several major corporate policies: • IFAD Strategic Framework 2007-2010 • IFAD Strategy for Knowledge Management 2007 • IFAD Innovation Strategy 2007 • IFAD's Private-Sector Development and Partnership Strategy 2005 • IFAD Policy on Targeting 2006 Interventions at different levels /multi-level approach: • Micro – FSPs • Meso – support organizations • Macro – policy and regulation	
Chapter 4: Guiding principles	
Six overarching guiding principles for all levels: • Support access to a variety of financial services, including savings, credit, remittances and insurance, recognizing that rural poor people require a wide range of financial services; • Promote a wide range of financial institutions, models and delivery channels, tailoring each intervention to the given location and target group; • Support demand-driven and innovative approaches with the potential to expand the frontiers of rural finance; • Encourage – in collaboration with private-sector partners – market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources; • Develop and support long-term strategies focusing on sustainability and poverty outreach, given that rural finance institutions need to be competitive and cost-effective to reach scale and responsibly serve their clients; and • Participate in policy dialogues that promote an enabling environment for rural finance, recognizing the role of governments in promoting a conducive environment for pro-poor rural finance. The application of these **principles is binding** on IFAD country programme managers, project staff and consultants in IFAD-supported projects working in rural finance. Any deviation from these principles will require clear justification and approval by Management.	Focus on rural poor Principles are correct, but rather broad This last sentence is obsolete
Chapter 5: Guidelines	
Micro Level: - Demand: Credit is not always the answer, assess demand, participation - Supply: institutional sustainability, limited scope for lines of credit to retail institutions, measure performance - Customer education and protection are critical - Revolving loan funds often leads to poor repayment rates and the collapse of the fund	Is **participation** really that important, feasible today Still many interventions are **credit focused**. **Uruguay, Egypt**: institutional sustainability, Share of **lines of credit to retail MFIs in portfolio**? **Credit Guarantees** – projects managing them? Full cost assessed?

- Credit guarantee are only effective when fully integrated into the existing financial market and managed by finance professionals. - Do not subsidise interest rates at client level Meso Level: - strengthen a broad range of market players, including networks, associations and apex organizations of rural finance institutions, domestic rating agencies, credit information bureaux, payment systems, training and technical service providers, and professional certification institutes. - Requirements for credit lines and credit guarantee schemes - Long-term commitment, coordination with other development agencies Macro Level: - National microfinance or rural finance policy - Prudential regulation and supervision - Unregulated FSPS when they are making progress towards sustainability - Support regulatory authorities and transparency in sector	Interest rates are still a huge debate. Not all larger MFIs (not CBFO) contributing to the MIX? How many in IFAD projects? Not **really much meso level** support. Good experiences at macro level limited very limited Very broad and comprehensive
Chapter 6: Implementing the Rural Finance Policy	
Monitoring for results - Performance of participating FSPs along indicators - MIX and RIMS (IFAD) - Exit strategy if targets are not achieved - Client level – beneficiaries to define targets for success and impact measurement **Strengthening and documenting IFAD's rural finance capacities and knowledge** - IFAD's corporate quest for **quality enhancement and quality assurance** includes rural and agricultural finance operations as a key area. This particular competence and sector knowledge requires systematic documentation, synthesis and dissemination. The **Rural Finance Thematic Group** (RFTG) plays an active role as a conduit for disseminating knowledge within IFAD and sharing information and experience within and beyond the Fund's boundaries. The RFTG assisted in updating the Rural Finance Policy and will also be actively involved in disseminating the policy through adequate communication plans that include decentralized staff and external partners. **Experimenting with innovative finance instruments** - New instruments and funding modalities: targeted facilities and funds - Risk management products - Value-chain development and actors - Leasing, insurance, warehouse receipts **Options:** - Amendment to IFAD's founding documents to enable the Fund to engage directly with RFIs and private sector, equity investments - Increase share of grant funding allocated to rural finance **Reference to Guidance:** Decision Tools for rural finance – for project design and implementation.	MIX not so relevant for the full range of FSPs, some are much smaller, not all are reporting Targets and exit strategy – is that implemented? RFTG not very active New facility under preparation. These approaches are still a very minor thing.

Source*:* ESR compilation.

Good practices in project design

Good practice	*What can go wrong?*
Asses demand for financial services: - Assessment of demand for financial services (type, amounts) and absorptive capacity of beneficiaries - Segmentation of future clients - Collection of baseline data before project	- People may need other financial services; e.g. savings rather than loans - Interest rate question for loans is only solved late in process
Good FSP choice Assessment of potential participating FSPs in project region **along standard minimum criteria**	- Overestimation of existing FSPs - No/too few partners can be identified - Planning of graduation/formalization does not work
Realistic outreach targets as financial instruments require time to become effective; components requiring financing (e.g. business development services) need to be synchronized with the delivery of IFS.	- Expectations to reach large numbers of project recipients in project implementation can short-cut the due process of development and drive the design and implementation to achieve the project numbers.
Cautious targeting as target group may not qualify for loans	- FSPs have their own criteria, other than the project for serving the target group (charging interest, requesting collateral) - Only other borrowers can qualify for a loan (not project - Too narrow – or too wide targeting
Linking finance and other support approaches - "Light" but clear linking productive and financing component - -Plan finance always as a separate component	- The instruments used for finance only work during the project time - No real sustainability strategy of the finance approach after project (instrumentalist view)
Involvement of government partners, based on a careful assessment of capacity - - plan capacity building measures in finance - - involvement of MoF - - embedding actions, synergies, transparency of contributions via a National Financial Inclusion Strategy	- Governments pressure to serve certain target groups, with not cost-covering financial products - Min of Agric or other ministries run their own and different approaches despite being active in a financial sector context which would have a long-term and coordinated vision/approach
Establish qualified PMU - - hire experts very early in process - - continuously train and coach them	- Hire finance expert in time / not late in process - Build capacities of good rural finance principles of partners
Apply flexibility in design - - Anticipate that changes occur in the environment, with partner's roles and capacities; in environment, or even gov. priorities. - - some design approaches are not feasible, overestimated, assumptions not fulfilled - - Consider to formulate options - - Identify threats in advance/during design (risks)	- - supervision mission has no finance expert - - required change in approach or of partners is recognized only late and finance is lacking as key input - - is little anticipated that things change.
Assess time for preparation before financial services are available more realistically - establishing sound concepts for guarantee funds, preparing tenders for hiring international consultants takes time (sometimes a year or more) - national staff often not qualified sufficiently	- Shallow analysis of financial and institutional capacity of potential partners
Assess investments for new proposals more serious (know-how, sound approaches with realistic amount of inputs)	- Innovations are under-estimated with regard to making them understood and work - New finance themes such as leasing, VCF, insurance, digital finance, are implemented in a different sub-system that is not considered sufficiently (recommendation is made but the wide range of the implementation consequences are not clear)
Delegation of key functions to partners at meso level through wholesale-lending/funding by project	- - Project itself assumes meso level functions, e.g. lends to village groups

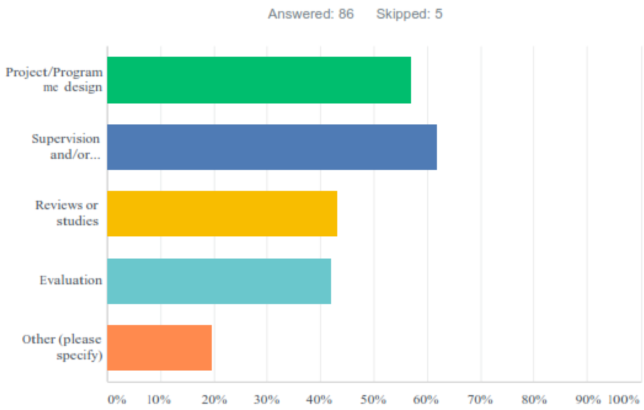
Source*:* ESR compilation.

Results of survey on rural finance policy implementation

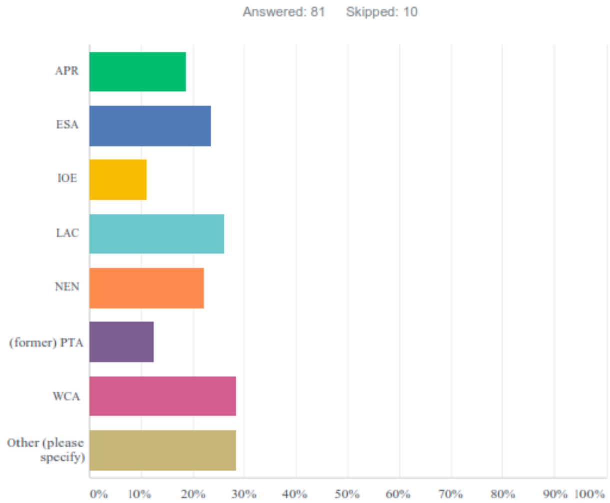
The survey was open for responses from 17 December 2018 – 6 January 2019. 86 people responded (31 per cent).

Survey of the Independent Office of Evaluation on IFAD Rural Finance Policy implementation

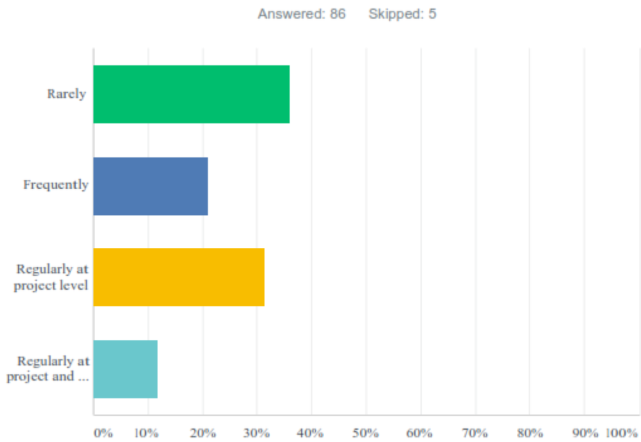
Q1 Please indicate the type of engagement on rural finance



Q2 Please indicate the division you worked for in IFAD on rural finance



Q3 How would you characterise your engagement with IFAD on rural finance since 2009?



Q4 What are your views on the 2009 Rural Finance Policy: Did it help to improve IFAD's operations in rural finance and is it still fit for purpose? How could it be improved? (answered 61)

Selected responses - Feedback on the 2009 Rural Finance Policy:

The 2009 Rural Finance Policy did improve IFAD’s operation on rural finance in many countries where the regulatory and legislative environments proved to be enabling to promote performing MFIs in a competitive market. The areas of improvement of the 2009 Rural Finance Policy relates to a better inclusive rural finance sector, consolidation through graduation to provide saving products, capacity building and partnerships with commercial banks.

The 2009 Rural Finance Policy together with the rural finance Decision Tools to my knowledge have been useful. They have continued to steer IFAD away from a focus on rural and micro credit towards institution building. The focus on strengthening the sustainability and self-reliance of RFIs, particularly through deposit mobilization, portfolio diversification, a balanced inclusion of high potential areas of operation and profitability, should be intensified.

Yes it helps but it would be better if more concrete actions are taken especially in terms of training and development of agricultural value chains; to help developing countries to develop their potential and reduce their dependence on food

The 6 principles that guided the IFAD Rural Finance Policy are still for purpose; however it usually falls short when relating projects duration (max 8 years) and macro level interventions (usually related to long term expected results).

Good approach in principle, but compliance has not been sufficiently high as interests of CPMs prevail over principles. All consultants should receive a complete set of relevant documents when starting their assignment. All consultants should receive, upon expression of interest, receive relevant documents, such as Rural Finance Policy.

The Rural Finance Policy and the decision tools reflected best practices at the time and it has served IFAD well in providing support to consultants while articulating design issues, implementation support and supervision of IFAD supported programme/projects. There is need for Rural Finance Policy to keep pace with the new innovations and changes that we are experiencing now either in digital and mobile finance innovations as well as innovations that incorporate climate change issues. There are more actors in rural finance unlike in 2009 when IFAD was the only one. There is need to capture experiences from these new actors.

The Rural Finance Policy has been very useful. But my observation is that communication about it should be improved - many project level staff are not aware of it, and even some IFAD staff and consultants

Marginally effective. It doesn't really focus on what is the role of rural finance and how a good rural finance programme should function. No discussion of target market and the need to understand the credit culture of the people in the programme area.

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It was appropriate and articulated the most advanced good practice at the time. Not as forward looking as it might have been.

The well-structured and comprehensive rural finance policy framework with its guidelines and criteria in designing programs oriented to rural poor could be considered as IFAD’s potential strength. The practical realization of this potential in terms of supporting rural poor is successful in those cases when (1) the program design was relevant, (2) the implementation modalities chosen correctly based on the well elaborated market study and (3) the local implementation capacity at PMU was adequate. If all these 3 factors are in place the IFAD program demonstrates strength and is successful in reaching the rural financial policy objectives.

The Rural Finance Policy is there, but is not often used or consulted. Not following its own Rural Finance Policy in project designs (e.g. including into design interventions or features that are not considered best practices - such as interest rate caps, activities that require very high technical expertise that is often lacking, activities that are out of context - like setting rotating savings and credit associations in highly developed financial sectors, including implementing partners into design without proper due diligence, etc.).

The Rural Finance Policy document by itself is not sufficient to enable innovation and inclusiveness in rural financial practices. It certainly sets the enabling framework but, eventually in practice, the implementation is focusing more on outputs than on outcomes, and more on quantity than on quality.

Suggestions for improvement:

Make is less complex, and more focuses on competitive advantage of IFAD

Incorporate a more systemic analysis of the political and cultural aspects

It could be improved by enhancing definitions and incentives for innovations. Also the process for evaluating good lessons and subsequent scaling up should be expounded

Could be updated to include technological advances.

Flexibility is a must in order to take into account the specificities of each country and each project as well as each target beneficiary.

SME finance should be included in a big way. Digital finance should be explored

General suggestions on IFAD's IFS approach

Monitoring of results at the client level could be improved. Project beneficiaries are not sufficiently involved in defining targets of success. Outcome level Indicators are not updated regularly, impact measurement is also a weak area. Although these areas are covered in the Policy document on recommendation level, they could be better addressed in the Decision Tool for better implementation guidance.

Rural finance should be the subject of a project itself and not just a project component and, if possible, IFAD could support governments in defining and strengthening specific financing policies for small rural businesses.

IFAD should make emphasis on micro-finances and guarantee systems. The goal should be reducing the service delivery cost by improving technology and investing in human capital for micro- finances.

The IFAD’s operation could be improved with more simple lines of action and listening more the local partners

One way I believe could improve this situation is to include from design the ways to incorporate the rural people who would access to finance services or the rural organizations that merge from the projects implementation to the finance system prevailing in the country.

Considerably more innovation needs to be added in view of the impact on the supply chain and rural economic development, and therefore calling for a change in relatively classic models of microfinance and community banking.

However let the driver be local reputable financial institutions rather than competing with them or coming to experiment new ideas drawn from other places without having any good reasons to reject what is at hand. Innovation is good when it is needed, but not absolute necessity.

It is very important that IFAD: i) is including in project designs actions to improve access to financial services because poor people in rural areas do not have these services; ii) support the development or implementation of innovative strategies in the field of financial services specific to rural communities; iii) apply and share lessons learned in rural finances in countries with similar peasant economies; iv) support the capacity building and the generation of rural finance policies

Q5 In your experience what has worked well in IFAD operations? (answered 59)

Selected responses:

Outreach: overall, in remote rural areas, IFAD rural finance operations managed « cut the ground from under money lenders' feet » and reduced their tendency to « exploit smallholders ». IFAD operations have expanded micro-lending to clients not eligible for formal lending.

IFAD operations have enabled governments to validate methodologies that seek to support the rural poor to overcome technical, financial and social weaknesses. Many of the lessons learned in the implementation of IFAD projects are incorporated by the State Entities and Local Governments. The transversal themes that are IFAD policies have served to make visible and increase the participation of women and young people in projects financed by IFAD. The strategies to include in the different stages of the projects, participatory processes have served to demonstrate that transparent allocation and management of public resources is possible.

The projects were learning spaces that took into account that peasant and indigenous groups and their families participate energetically in the competitive allocation mechanisms rooted in cultural traditions. This approach promotes the empowerment of the target groups of the project and the associative capacities to develop their own initiatives. This is because part of the identification and recognition of environmental, cultural and economic assets (including their knowledge and skills), which encourages the population to co-finance and invest in their own initiatives.

Q6 What has not worked well in IFAD operations? (answered 59)

Selected responses:

Country managers who felt the need to succumb to country desires for funding their priorities, even when they were not the better practices.

The demand-driven approach to capacity-building – leaving the initiative for training up to the sector - has had the effect that the focus on rural and agricultural finance has gradually given way to microfinance in general.

meso-level support linking finance and non-finance not always (different rationale behind the two) modern approach to value-chain financing going away from credit as the main financial services targeting makes rural finance challenging measuring/proof if impact

Some of the operations need much longer timespan to ensure sustainability. The programme approach needs to be improved to ensure greater leverage.

The establishment of general policies for the development of the agricultural sector; awareness and Implementation of real reforms aimed at developing local agriculture, including the processing of products to adapt them to the needs of the market.

In some cases, the fact that IFAD, due its targeting policy towards the most vulnerable, impose rules that become contradictory: financial profitability of the operations to sustain RFI sector versus distribution of soft credit/grants to the target.

Trying to tackle the status quo existing at the policy level, because of different reasons: fear among the members of the finance institutions when they believe their markets would be "taken" by other local institutions (farmers ran); the fear of the rural people because they think they will not be able to participate at the level due to the lack of skills; the rural finance established system has difficulties understanding the prevalence of a free market with a wide range of services available and institutions providing them.

There are various problems at the level of project cycle, nevertheless two of them have a negative multiplying effect, one of them is that at formulation stages too many and excessively ambitious goals are included for a very limited timeframe, not considering weaknesses both at institutional and beneficiaries levels. Also a logical framework with too many and sometimes not relevant indicators. Consequently, the review and evaluation missions are forced to modify goals, indicators, budgets, etc. Regrettably, at project level, it seems that not enough attention is paid to the design and implementation of an appropriate monitoring and evaluation system. Project implementation units should pay as much importance to the goals as to the development and implementation of a proper monitoring and evaluation system.

Social exclusion (the backside of social inclusion): a focus on the poor and poorest, women, remote areas and "missions impossible" - a tendency, or perhaps rather a claim, to exclude men, the non-poor, SMEs, and high-potential areas with successful operations that could serve as lighthouse examples and pull along the poorer areas and segments of the population. Perhaps I should also mention the pronounced tendency of staffing project management with employees the government feels it could spare (instead of hiring the best on the market, perhaps financed through grants rather than loans to the government)

Monitoring systems for financial data are weak; corrective measures are slow to impossible to implement either because the weak capacity of the financial institution or the absence of political will or the absence or other rural financing options

Use of same consultants to design and supervise projects. Each CPM has a group of consultants they use and after some time there is no innovativeness and no critical analysis. 2. Limited former PTA support given the number of staff covering all rural finance in IFAD only three technical staff.

Lack of flexibility in proposed activities especially at design or final design stage.

The attempts to change Central Banks and financial institutions policies.

I also think that sometimes there is too much emphasis on credit lines before making sure that funding is indeed a bottleneck. I also think IFAD should invest more in participating financial institutions /implementing partner due diligence, like the World Bank? Does, to avoid partnering with weak participating financial institutions or otherwise ineligible partners

Q7 According to your experience, what are the most important reasons for success or failure of rural finance operations? (answered 59)

Selected responses:

IFAD project rural finance operations tend to be overambitious. They often mix different levels of objectives (micro, meso and macro), with limited technical capacities. They should focus on one objective at a time. The lack of clear guidance regarding sources of funding of FSP. The sequencing of activities should also be reviewed. For instance, the exit strategy of rural finance operations (and the handover to governmental bodies) should be formulated and implemented along the implementation life of the project not at mid-term review or at the last year of the projects.

The higher was the ambition level of interventions in the design (demonstrated in overly optimistic targets for key performance indicators) the higher is the probability of lower effectiveness and significant adjusted after midterm review. The most important is to set objective targets right, based on the thorough market research, take the local context into consideration when determining indicators and make this process more participatory, which will help in defining the practically attainable limits for the targets.

Strong goal setting helps tremendously, good coordination between the head office and the field and finally, good evaluation.

IFAD has a will to impact the poor during a short period of time; - IFAD does not understand that there is a need for a long time investment in RFI and change its approach too soon

For success: that rural people are able to identify the need for economic independence and the undergoing projects must develop and implement strategies directed to create the adequate environment for people so that their fears are managed; projects design that tackle from the very beginning the beliefs of the finance system prevailing at the time . For all that an accurate diagnose is necessary.

Success Factors 1. IFADs ability to contain attempted political interference 2. IFADs commitment to projects and funding support 3. Regular supervision missions

Risks to Success 1. Controversy among Government agencies over control of resources. 2. Activities not getting value for money spent. 3. Government counterpart funds not provided as agreed.

Engaging with new, private, actors in rural finance markets, and pursuing market oriented interventions to widen and deepen access to financial services. This has been a good contribution from IFAD rural finance operations. The bad news is that this contribution has not had the scale, or the adequate priority to positively impact these operations. The reluctance, or little political will, from Government implementing agencies to decisively promote these market oriented interventions, has been followed by IFAD reducing its emphasis in Rural Finance Policy recommendations. The result, so far, is very little success to report in this area.

Understanding the actual financial needs of the target group is a challenge. Research based interventions - be it in the demand side or the supply side ensures success of rural finance operations. Assumptions made without proper research in regards to product design or delivery model may lead to failures. Moreover, political interventions may also impede progress towards rural finance operations.

The critical factor for designing an effective credit system (rural or otherwise) is to employ people who have had actual practical banking experience in making loans. Hiring people who have only worked for country foreign aid programmes and lack the personal experience and training with financial institutions do not understand the full credit cycle and often confuse making loans with income redistribution. This leads to poor loan repayment over the medium term. Finally, success often is measured by the amount of loans disbursed, not by the loan recovery rate, which is much more important for sustainability.

The two most important factors of failure or underperformance that come to mind are: (1) a mistaken focus on women, the poor and remote areas (these are goals, rather than means, which cannot be attained by direct intervention - take China as the most prominent example for a different policy, namely "export-led growth", see also Taiwan and Korea). (2) Reliance on the government rather than resources to be found on the market and market mechanisms.

Failure: 1. Too rigid planning with insufficient flexibility 2. Local staff not sufficiently competent 3. M&E systems too complex, beyond the capacity of local staff and not detailed enough for in depth analysis 4. Partnering with the wrong partner 5. Unrealistic funding principles

Success: 1. Efforts to adjust design elements to realities 2. Realistic targets and plans 3. Full agreement over approaches, targets, funding.

Working through borrower governments especially in the procurement of private sectors partners such as commercial banks and technical support services had been the greatest impediment 2. Staffing the programme coordination unit with non-rural finance technical staff to support private sector partners 3. Complicated M&E requirements that private sector don't have time or resources to collect and analyse. There is conflict between private sector approach and social impact data requirements.

Rural finance operations are often standardized, focusing mainly on supply side access to finance and not holistic financial inclusion. Successful interventions focus mainly on the demand side and adopt coaching and mentoring approaches that lead to graduation of beneficiaries.

Q8 Where do you see IFAD's demonstrated strengths in rural finance?

Selected responses:

Outreach: IFAD is the only donor/IFI that can give the opportunity to people living in remote rural areas access formal financial services.

Supporting CBFOs, working with MFIs Being the rural finance hub globally which is really on the ground Publications on smallholder finance

Capacity building for informal and formal financing institutions particularly for governance

When IFAD can partner with a recognized and established RFI; ii. When IFAD lead or contribute to the definition of a national policy insuring sustainable access to finance to the segmented rural sector

Improving smallholder farmers in their financial management, including risk and seasonal fluctuation, access to finance, financial education, training and promoting transparency and consumer protection, and enabling the linkages with migrant remittances and using remittances as a source of finance.

Linking local financial services providers with IFAD targeted clients leads to financial inclusion in the medium to long run.

Promoting good practice, selecting good financial institutions, keeping government at arm's length from operationalizing finance programmes

A well design and elaborated rural finance project coupled with flexibility that are result oriented - consistency and timely provision of funding to cover both staff capacity building and infrastructures - improvement of feeder roads leading to such Rural Finance Policies. Qualified and vast experienced personnel (at headquarters) and also a pool of consultants that understands the countries' context - In-depth supervision missions conducted

Micro-finance has been mainstreamed in the past few years. IFAD's experience in this sector is a strength but not unique to IFAD anymore. IFAD should explore more innovative approaches given it is probably the only of the development agencies that focuses at small scale.

IFAD has a strong value proposition in rural finance and should invest more in knowledge management and learning. This goes beyond documentation, can ensure a strong amplifying effect.

Q9 Where do you see IFAD's demonstrated weaknesses in rural finance? (answered 59)

Selected responses:

Targeting strategy: reaching the rural people does not necessary mean reaching the rural poor.

The trickle-down approach adopted by some IFAD projects (cf. value chain financing) should be validated by impact evaluations in terms of targeting. 2. Sustainability, institutional capacity and inclusiveness of financial institutions at grass-root levels.

I believe that IFAD should promote the strengthening of the capacities of project execution teams in rural finance issues because the implementation of the financial services component is slow or not carried out correctly. In addition, this strengthening must take into account the capacity- building in public and private entities that provide financial services, to bring the supply and demand of financial services closer to the specific segment of poor rural communities.

Ability of IFAD to change views and technical views to match changes in the local contexts of the projects that are supported. Ability to "let go" of a project or institution, based on criteria of success or failure. Indicators that would inform IFAD of timing and performance, and will to make appropriate decisions.

When IFAD plays alone imposing its own rules whether softer or harder than the national context; ii. When IFAD functions with the time of the project cycle that impact negatively on the link with clients and RFI (whether disbursement obligations at the beginning or lack of monitoring at the end) IFAD then builds a strange reputation of lack of constancy.

The issue of country politics driving some of the IFAD lending project designs

Integrated, innovative concepts across different lines of finance and financial products & channels, and across different sectors (trade & logistics) in view of the acceleration in digitization.

Over optimistic time frameworks, and lack of realistic about petty corruption by unethical Board members.

Mismatching project objectives with the reality due to time gap between project design and project implementation, project life (5-7years) is short for project initiated organizations to start, grow and mature into sustainable institutions capable of carrying out activities beyond the life of the project.

The time involved in the process of approval and implementation of projects (one or two years), as well as too ambitious project goals as explained, creating a multiplying effect of various problems.

Lack of knowledge and understanding by some consultants of local conditions. 2. The distinction between the ministry of agriculture which is responsible for agricultural policy, production and marketing and that of ministry of finance/central banks needs to be clearly defined.

Lack of systematic approach in building partnership with field-level operational implementing partners or service providers

The mother of all weaknesses: IFAD operations married exclusively to ministries of agriculture and or institutions for social assistance. Rural finance operations should necessarily be associated to government institutions with a better financial understanding of their markets, AND with strong participation of representatives from credit unions, S&L cooperatives and or microfinance institutions. consultation / participation of other development agencies from the international financial community should also be a must.

Poor selection of partners. Not understanding local credit conditions. Over-optimistic assumptions. Hiring inexperienced people with limited actual banking experience to design and run rural finance programmes. Not enough emphasis on developing effective credit approval and loan monitoring systems.

Fallacy that the complexity of design elements would be useful in the implementation process - Insufficient care for specific sustainability requirements, and instead doing too many nice things that derail or do not sufficiently support the overall goals of sustainability and outreach

Not having ability to help financial institutions with equity, inability to easily provide soft asset development. Expecting strong linkages with non-financial programming.

Q10 What rural finance approaches, support instruments and financial services should IFAD support more in future?

Selected responses:

Mainly, I believe that IFAD projects should i) continue to promote savings culture strategies, self-managed funds and specific insurance schemes, even when the mechanisms must be improved; ii) support the adequate establishment of cooperatives as a means of rural financing; iii) strengthen the approach of supply and demand of rural financial services; iv) commit governments to the construction of specific policies; v) projects with greater follow-up and constant evaluation should be included in the progress of implementation of these strategies that demonstrate that it is being effective In general: i) territorial commitment and local authorities must be encouraged; ii) direct the actions especially to the commercialization and opening of markets; iii) generate synergies among the different institutions of the governments so as not to repeat actions and more fully support the communities; iv) generate strategic strengthening spaces for technicians, authorities and institutions committed to rural development of the projects they are supporting.

The Value Chain approach (including contract farming and out-grower schemes) has not been a focus area of the Rural Finance Policy and is not sufficiently addressed. It is understandable that VC approach is covered by other donor institutions and development organizations like FAO, USAID who have more expertise in this subject. Better coordination from the design phase with other stakeholders focusing on VC and incorporating this approach in the project designs would be a direct step in addressing rural poverty.

Savings, payments and insurance, also for VCs and in agricultural finance Qualifying PMUs in rural finance Stand-alone rural finance projects in larger markets Working on the intersection of agricultural policy, disaster risk management policy and financial sector policy.

Performance based agreements with financial services providers and meso level institutions (TA, capacity building, policy reform, etc. Organize a consortium role in financial sector policy to inform decisions in country projects, and also to inform knowledge/learning within IFAD.

In my opinion, IFAD will have to focus much more on supporting the structuring, development and financing of CVAs, with support for market promotion and local consumption; urge states to put in place policies to protect production and local processing at the expense of imports ... encourage the financing of CVAs by banks and MFIs; to help the states to set up the infrastructures of accompaniment (control of the water, opening up, local and regional market).

Support the establishment of national policies with appropriate tools according to the segmented clientele (in collaboration with social affairs department if it exists) ii. design long term programmes with RFI, with regular M/E support to guide the necessary flexibility and to guarantee a sustainable access to finance.

IFAD would be warmly recommended to include (a) leveraging existing rural postal networks as part of the physical basis supporting rural development both in financial inclusion and as part of the supply chain (transport, logistics, warehousing) and in combination with the (global) digital platforms for finance, logistics and small trade and linked with e.g. diaspora. More support is also needed in enhancing financial literacy and usage of digital instruments for which post offices could be instrumental for communications, training and information. In a broader context linkage needs to consider with personal ID (registrations, issuance and checking) and geolocation of rural operations. IFAD should also support more regional programmes promoting international cooperation, exchanges and integration in international systems.

Micro-finance institutions (community banks, rural banks, financial services associations serve rural economic activities better and should be supported. 2. The focus on agriculture is very relevant but the portfolio should be diversified enough to cover other rural economic and social activities to give a well-integrated rural finance for rural development. Diversification mitigates risk of default and promotes sustainability. 3. The cooperative type of micro-finance arrangements (financial services associations) should be supported more. It provides a more participatory platform for rural actors. 4. Activities include: a. primarily agriculture (production, transportation, marketing, processing etc.), but also b. commercial activities (these sell to and buy from farmers), c. educational loans (ensures more children go to school) d. salary loans - (teachers and other workers who serve the farming communities) 5. The facilities must be tailored to the activity cycles 6. Support should extend to commercial off-takers linked to farmers.

Market oriented interventions to strengthen rural financial markets: working with local financial institutions keen to risk their own resources to finance rural credit. Promoting Savings more than Credit, among project beneficiaries, bringing the most of these beneficiaries into the formal banking system. Promoting mobile banking in rural areas as one of the most powerful mechanism to widen and deepen access to financial services in these areas.

More governance, policy dev., capacity dev. at institutional and national level. Some of this is best done in coordination with networks such as the rural and agriculture finance associations, CGAP, CABFIN, etc. Support to advancing new technologies is also important. A VC finance approach has been useful for many types of projects, but should be broader than a contract farming view of VCF.

IFAD should focus on interventions that help mainstream beneficiaries into formal financial system, not isolating them, and thus should focus on working with formal, eligible, private sector, and sustainable financial institutions as implementing partners for the provision of financial services as opposed to government or community-based organizations that are often weak and incapable of delivering quality services.

Future direction: Improve and expand work with established banks or regulated financial services providers to take a step further into the bankable frontier. Don't neglect to start or expand these private and innovative (but higher risk) models that have sound consumer research supporting them, (like digital finance for agriculture). Support consumer financial education as a necessary and important component of any project.

Q11 What rural finance approaches, support instruments and financial services should IFAD support less in future? (answered 49)

Selected responses:

"Plain vanilla" technical assistance should be avoided (e.g. awareness raising, literacy improvement or technical capacity building) for direct beneficiaries (rural poor) not combined or- followed with other intervention mechanisms (directly or indirectly) leading to access to financial resources by the rural poor and putting these resources directed to the productive activity. The factors that are not in IFAD's direct control and are depending on the government decisions should not be simply assumed, better mitigation strategy should be put in place. For example: launching a refinancing facility for the rural MFIs that IFAD-supported informal village groups are expected to have access to.

Policy and regulatory support (only in stand-alone rural finance projects) Having finance and non-financial support in one component matching grants (only in specific situation/very poor target groups or graduation models).

State owned banks. Community financial services that are not linked to some broader organization for compliance, accountability and financial intermediation at a higher level. Community or cooperative organizations that do not follow a proven model of success, safety and governance.

The rural finance approaches, support instruments and financial services that IFAD should support less in the future are: 1. Contributions of seed capital for the rural savings and credit associations that are in operation. 2. Indiscriminate contribution of working capital to poor rural producer organizations. 3. IFAD resources devoted to strengthen and modernize the private, governmental and social sector financial institutions that operate in the geographic area of IFAD projects. To create financial funds operated by private institutions and the social sector, to finance organizations of poor rural producers supported by business plans, since they charge high commissions and never get to operate efficiently and have demonstrated a low capacity of credit operation.

Blended finance is over popular at present and should be reviewed and likely reduced somewhat to since much of it is not sustainable.

Guarantees - Risk sharing facilities without first providing technical assistance.

Building stand-alone, small micro-finance institutions or other local rural finance only entities. In view of digitization priorities need a reset, requiring integration into the digital, global economy.

The present structure of an 'Apex Bank' for rural finance banks is cumbersome, costly and needs review. Otherwise the central banks should be impressed upon to assume their traditional roles of supervision and monitoring.

No funding for specific credit funds directed to specific groups. Promote and support, instead, private finance for these groups, via local banking or not-banking institutions. No funding for unconditional transferees, and only very well designed, targeted, well assessed and of temporary nature conditional transferences should be funded with project resources.

Policy development as this can be done better by others, and also Training because it is challenging to attribute financial inclusion directly.

Avoid government run finance and lending institutions. Institutions that have no experience in rural lending. Do not design programmes where government agencies have the right to identify where the programme will operate- often called a public/private joint venture.

Less pressure to lend money, more policy and governance emphasis and more capacity building.

Q12 Please provide any other comments you would like to make on IFAD's performance and future direction in rural finance (answered 47)

Selected responses:

IFADs performance for rural finance is above average. The area that needs improvement is effective linkage with agriculture (the whole value chain). The agricultural ministries should focus on providing policy and support to farmers to make them credit worthy to access finance from financial institutions. The Agricultural Ministries should not be direct channels for finance delivery to farmers.

Two emphasis for rural finance projects a. Projects should necessarily be designed within the government strategic priorities framework, one of which should necessarily be the Financial Inclusion Strategy, as a condition to be considered and highly appreciated in IFAD’s project assessment and approval b. IFAD should better identify implementing agencies engaged with and committed to their Government's Financial Inclusion Strategy, in each country. IFAD should also promote participation of local private actors in projects implementation.

Having worked for IFAD over a seventeen year period my main criticism is the reluctance to acknowledge mistakes and the tendency to talk up successes, however faint or fleeting. Accepting mistakes and rectifying them is a key component of any learning exercise. I don't recall any programme that I looked at in IFAD where a programme was acknowledged as a failure (particularly by the area department) and cancelled. In private sector finance the need to cancel a loan or a programme that is failing is identified as a key management attribute.

There should be better transparency and accountability for rural finance component designs and supervision mission recommendations. If something is not working well, it should be documented in a way that is accessible beyond just one particular project. But it is not enough to say it is not working - it is necessary to understand the reasons - where the mistake has been made, either at design or implementation, or due to design modification etc. Also, the new supervision report format is not always helpful in identifying issues as it is no longer organized by components and issues relevant to rural finance components can be scattered around in different sections.

Inclusive financial services glossary

Name	Description	Source*
1. Intervention level	Explains the level of the financial system to which interventions are directed at	
Macro	Improving the enabling environment of the financial systems by supporting the strengthening of legal, regulatory and supervisory frameworks	
Meso	Locally available market infrastructure and service providers for the financial sector (second-tier institutions and technical service providers), such as wholesale lending institutions, credit guarantee institutions, credit reference bureaux, collateral registries, mobile payment platforms, training institutes, certification institutes for financial service providers, remittance and transfer payments systems, and technical service providers for capacity building of FSPs (see also Apex definition below)	
Micro	Financial service providers (retail service providers): commercial state and other banks, microfinance institutions (regulated in the financial sector, and NGO-type), insurance companies, money transfer operators, cellular phone companies, and leasing and equity companies or funds. FSPs are the supply side, clients are demand side	
2. Channel	Can be a public or private institution and which is derived from the intervention levels, can channel retail or wholesale financing, or even non-financial services	
Apex	Literally 'top institution'. An apex institution is a second-tier or meso-level organization that channels funding (grants, loans) or services (credit guarantees, technical assistance) to multiple /diverse or specific types of FSPs in a single country or region. Funding may be provided with or without supporting technical service. Can also be a head-institute of FSPs (banks MFIs, credit unions, SACCOs, VSLAs) such as an association. "An apex institution is a second-tier or wholesale organization that channels funding (grants, loans, guarantees) to multiple MFIs in a single country or region. Funding may be provided with or without supporting technical service".	CGAP 2002
Community-based financial organization	The term 'community-based financial organization'(CBFO) covers a wide variety of entities that provide a range of financial products and services. CBFOs typically operate in remote areas that lack access to formal financial services, and often without government regulation and oversight. Most CBFOs are self-governing, often relying on volunteers. Range from formal (credit unions, SACCOS) to informal (VSLA, savings groups)	
Government scheme	Providing financial services or second-tier functions by a government organization or programme. Government scheme, programme or project for supporting and/or financing (e.g. rural transformation, poverty alleviation)	
Retail FSP	Directly serving clients; as opposed to wholesale FSP which is on-lending funds to finance lending business of retail FSPs	
3. Financial instrument		
Line of credit	A loan to a FSP for on-lending to their customers. Repaid funds can be revolved until the LOC becomes due for repayment to the funder. Since the borrowing FSP assumes the credit risk, the loan from the LOC is a liability for the FSP. LOC funds obtained by a	

Name	Description	Source*
	government through an IFAD programme are usually managed by wholesale funders that lend to retail-level institutions /FSPs. Channelled by a fund, a commercial bank, a meso-level institution of government agency.	
Loan guarantee	A non-bank financial instrument aimed at facilitating the access of micro, small and medium-sized enterprises (MSMEs) to formal lending through the provision of credit guarantees that mitigate the risk of non-repayment. Essentially, a loan guarantee is a commitment by a third party to cover all or some of the risks associated with a loan to its client, who does not have sufficient bank worthy collateral. The LGF removes barriers to financing for the borrower and permits credit financing in general, or on more favourable terms.	
Matching grant	A matching grant is a one-off, non-reimbursable transfer to project beneficiaries. It is based on a specific project rationale for particular purposes and on condition that the recipient makes a specified contribution for the same purpose or subproject. Grants and matching contributions can be either in cash or in kind, or a combination of both. They may or may not be provided together with other financial services, such as loans, or linked to them. As one-off transfers, matching grants differ from permanent public transfers, such as subsidies for inputs and services (e.g. fertilizer or interest rate subsidies) or safety nets (e.g. cash transfers, food for work)	
4. Approach or thematic focus	Thematic focus, which means the approach taken	
Consumer protection scheme	The aim of this intervention is to protect microfinance clients from predatory financial service provision (of any kind of service). Can include interventions such as ensuring the transparency of financial disclosure (show true costs of product/service) by way of regulation, or standards providing, guidance on lending practices, mechanisms for handling complaints and disputes, and consumer education/financial literacy.	
Digital finance	Financial services provided with the support of technology in the form of digital devices, platforms, data generation or storage etc. This includes mobile money services, mobile or weather-index, insurance products, mobile weather services, or credit scoring.	
Equity	Equity is the value of an asset less the amount of all liabilities on that asset (=own capital). Equity can refer to any kind of equity-holder: Wholesale organizations, FSPs (Banks, MFIs or CBFO), or the final beneficiaries/clients such as small-holders, MSMEs, or households.	
Financial literacy	Financial literacy is the set of skills and knowledge that allows an individual to make informed and effective decisions with regards to their financial resources, financial concepts, as well as products and providers. Sometimes it goes farther, by mentioning “financial capability” i.e. the ability to use financial services.	
Graduation	The graduation approach focuses on developing sustainable livelihoods for the poorest, increase incomes, and move out of extreme poverty. It is a carefully sequenced, multi-sectoral intervention comprising social assistance to ensure basic consumption, skills training, seed capital, and employment opportunities to jump-start an economic activity, financial education and access to savings, and mentoring. The desired impact is increased income and asset building. Have to distinguish between financial and economic graduation.	

Name	Description	Source*
Linking	Linking is a methodology used in various ways to create synergies between stakeholders, programmes and approaches. It aims to increase outreach and offer a broad product mix to clients. Examples include encouraging linkages between formal and informal financial institutions; between financial institutions and non-financial service providers, such as retailers and agricultural input suppliers; microfinance and safety net programmes; electronic payments and social cash transfers; or linking FSPs to commercial capital.	
Market review	Diagnostic exercise that explores the demand and supply side of a market, as well as the enabling environment. It looks at both barriers and opportunities in a given market, e.g. how poor people use financial services; identifying the factors that constrain their uptake of financial services; their demand; understanding why FSPs are not meeting the demand of low-income clients; and identifies what are the drivers of change; the leverage points for catalysing change; and which incentives could be efficient and strategies effective.	
Value chain financing	Financial products and services that flow to or through any point in a value chain in order to increase the returns on investment, growth and competitiveness of that value chain. Can be formally provided by a formal financial institution, or by a value chain stakeholder.	
5. Financial service provider	The organization that finally provides the financial services to clients.	
Bank	Generally a private entity (can also be a state bank or cooperative bank), legally registered and supervised under the banking law.	
Credit unions or SACCOs (also RUSACCOs)	Member-based financial institution. Often regulated by a supervisory authority or government agency, some also under the central bank or banking authority. Provide savings and loan services to members, and sometimes also allowed to provide services to non-members (usually the larger/stronger ones having a license for services to the general public). RUSACCOs are rural SACCOs.	
Government scheme	Publicly funded and managed organization or programme. Can provide retail or wholesale financial services (or other services such as grants).	
6. Non-financial services	Often provided in a complementary way, usually by another component.	
Agricultural risk management	Assessment and identification of risks and risk management gaps. Includes analysis of risk exposure and its economic, social and financial implications. Risk studies then include assessment of the main risks and policy gaps identified, and the prioritization of risks and tools that should be the focus of the country's ARM initiatives.	
Business development services	Provision of technical and managerial skills, information and market access for MSMEs.	
Institution building	For formal and informal FSPs, or for meso-level organizations or government organizations.	
Capacity building	For FSPs or meso- or macro-level organizations (organizational support)	JOHANNA?
Training	Can be directed at beneficiaries, or at organizations.	

Name	Description	Source*
7. Financial product or service	Financial product or service that is delivered to the client (farmer, household, women etc., or other value-chain stakeholder): savings, loans, payment service, remittance, leasing	
Crowd-funding	Innovative way of mobilising funding. A small amount of funds are raised from large numbers of individuals or legal entities to fund businesses, specific projects, individual consumption, or other needs. It involves bypassing traditional financial service providers and using online web-based platforms to connect users of funds with retail funders. Crowdfunding typically means (i) raising funds in small amounts, (ii) from many to many, (iii) using digital technology	
Insurance	**Insurance is financial risk protection by a policy** Index-based Insurance – A special form of insurance that can be used to compensate for losses related to extremes in weather that often plague agricultural enterprises and increase the level of risk involved in agricultural endeavours. Unlike traditional insurance, which is most useful in compensating for losses from idiosyncratic events, such as house fires or car wrecks, index-based insurance works best where there is correlated risk, i.e., risk of an event that causes consistent damage or losses across a geographical area or sector, such as drought, flooding or price volatility. More recently, some insurers are also piloting innovative index-based livestock insurance products.	
Leasing	Lease – Contract for use of an asset for a set term in exchange for fixed regular payments between two parties. Leasing is a method of financing the acquisition or use of a fixed asset, predicated on the concept that the value of the asset is in its business use rather than through ownership.	CGAP glossary*
Loans	Credit, external capital provided by a FSP, informal provider like a money or a lender in the value-chain like a trader, can be in kind or in cash	
Payments and transfers, national payments, digital payments, remittances	Cash-less transactions of finance (remittance are transfers from abroad)	
Savings and deposits	Money deposited at and entrusted to a group, or a FSP	
Warehouse receipt financing	(or inventory credit) – The use of securely stored goods as loan collateral. A document is issued by a warehouse listing the goods or commodities deposited in the warehouse. The depositor can then use that receipt as a pledge to secure a loan from a bank or other lender. The lender places a lien on the commodity, so that it cannot be sold without the proceeds first being used to repay the outstanding loan.	CGAP glossary**

* Where no information on the source is provided, IFAD documents are the source (see Bibliography).
** Source: http://www.findevgateway.org/rural-and-agricultural-finance-glossar.

Senior independent adviser's report[1]

The evaluation synthesis report on inclusive financial services for the rural poor, undertaken by the Independent Office of Evaluation of IFAD, extracts learning from IFAD's vast experience and investment in making finance work for the poor. Financial services are core to the mission of IFAD and it is important to get it right. The work of IFAD is spread across many diverse contexts, operating environments and needs and interests of the agricultural and non-agricultural rural households. The report works to accommodate this challenge to evaluate and synthesize lessons and recommendations that apply across this wide spectrum.

The evaluation strives to extract cross-cutting lessons across the broad stratum of diverse projects and financial services work of IFAD. The synthesis of it is limited in how deep it can delve into the lessons due to this diversity as well as the insufficient data from some project reports. However, the evaluators have been able to look across the varied context and strategies to find cross-cutting lessons as well as make comparisons among projects using similar strategies, such as those using stand-alone rural finance projects versus projects in which finance was a component, the use of value chain finance approaches with financing, etc. The synthesis is also able to make some comparisons between financial products such as use of guarantee funds, matching grants, credit lines and newer technologies such as mobile money. This is not an easy task and the evaluation team is commended for its work in extracting the learning and recommendations for implementation in IFAD's strategy and practice.

A constraining factor highlighted throughout the evaluation and report is the inconsistency in quantity and quality of the information available in the project reports. The evaluation contains much information and examples, but the fact that some projects' field documents were not robust weakens the overall depth of the learning from them and cross-comparing. Hence, the recommendations made on improving not only the reporting but also on how the information can be more effectively shared across IFAD are important to be implemented.

In order to facilitate IFAD design and practice in its current and future projects, the need to capture more consistent information is noted. There is also a need to conduct assessments on some of the widely used financing instruments applied in projects. For example, as was evidenced in the synthesis, and noted in recommendation 1, although an instrument like a matching grant has been widely applied by IFAD, there has not been a comprehensive assessment of how they were designed and conceptually integrated, how they have been used by recipients, what the costs of administering grants were, what longer-term impact they generate for beneficiaries and to what extent they facilitated continued access to finance. In the same vein, linking business development services and finance, or integrating value chains and finance, are topics of great relevance that similarly call for increased tracking and reporting of such data which facilitates more robust assessment and learning from the ground.

The two most important issues according to the evaluation are noted as: (i) a lack of consideration of demand in the design of the financial services; and (ii) the capacity of the implementing partners. It would be important to dig deeper into the causes of these weaknesses. On demand, is it because of insufficient assessment, or due to governmental interests in the design and placement of the projects, is it because the broad scope of the projects with uneven and distinct demand and needs etc. Regarding capacity, a question to be raised is on the selection of partners; more guidance should be given to those designing IFAD projects on the criteria for selection, guidance for assessing and inclusion of mentoring support for those implementing partners selected.

The emphasis of the evaluation was on assessing and learning from IFAD's projects, mention was made of the contribution of the organization to global learning platforms

[1] The senior independent advisor for this evaluation synthesis was Calvin Miller, former Senior Agricultural Finance Expert at the Food and Agriculture Organization of the United Nations.

and partnerships. Yet, is important to highlight the strong contribution IFAD has made to supporting global initiatives and learning and also to note the benefits from it, especially in guidance and learning that IFAD has itself received as a result. In fact, the Recommendation 3 to "Strengthen engagement with IFS partners at regional and country level," should also include global as well as regional and country level engagement.

IFAD partners with governments in its projects. A design issue that is not able to be fully captured from project evaluations is how governmental interests and approaches mesh with recommendations of IFAD's technical leaders. Documentation of key issues during the design discussions and how they were resolved would be useful for others facing similar issues and also would provide a background insight to future evaluators of the projects.

While the evaluation synthesis report is aimed to enhance IFAD's development effectiveness, the lessons are useful for a broader audience of development agencies, governments and practitioners working with financial services for the rural poor. The synthesis document could not contain the depth of information contained in the evaluation cases. While the annexes contain much rich information, the case information used in the evaluation and synthesis report should also be made available, especially for managers and implementers of IFAD projects using similar approaches.

As a reviewer, I would like to express appreciation for the professionalism and integrity of the evaluation and review process. It was a pleasure to contribute to the evaluation and I trust that the IFAD Board and Management will follow through on the recommendations.

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