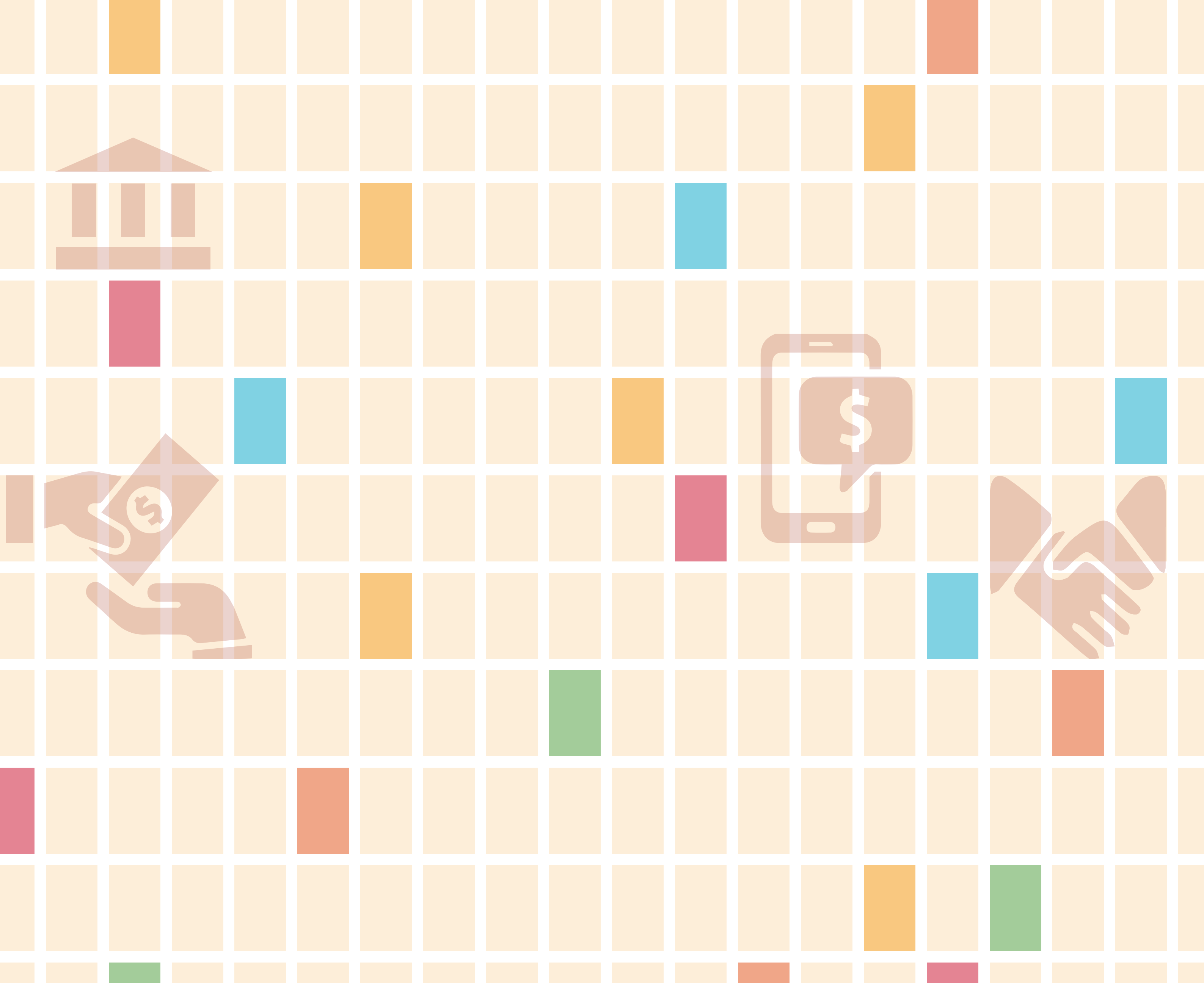
IFAD INCLUSIVE FINANCIAL SERVICES **PORTFOLIO STOCKTAKING**

IFAD
Investing in rural people



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ACKNOWLEDGEMENTS

This stocktaking report benefited directly and indirectly from many IFAD staff through direct interviews, a short survey, and input to various drafts of the report during each stage of research and production. Special thanks are due to the team of consultants consisting of Mr Biswa Bandhu Mohanty (covering the Asia and Pacific portfolio), Howard Miller (sub-Saharan Africa) and James Marc de Sousa-Shields (Latin America and the Caribbean, Near East, North Africa and Europe), who did the bulk work of this inclusive financial services stocktaking. The stocktaking was internally reviewed by Thouraya Triki, Director PMI and all colleagues of the PMI Rural Finance, Markets and Value Chain Unit. These were: Jonathan Agwe, José Caceres Martinez, Marie Edward Mikhail, Esha Singh, Enrique Hennings, Sauli Hurri, Mylene Kherallah, Cecile Kouakou, Nadhem Mtimet, Alessandra Pani and Guyo Roba. Acknowledgements are also due to Mr Chris Jarzombek, the technical editor, as well as IFAD communications division.

The stocktake was guided by Michael Hamp, Lead Regional Technical Specialist, Rural Finance, Markets and Enterprises (Asia and the Pacific Region, New Delhi) in the Sustainable Production, Markets and Institutions Division (PMI).

ISBN 978-92-9266-265-9

March 2021

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ACRONYMS AND ABBREVIATIONS

APR	Asia Pacific Region
CABFIN	Capacity Building in Rural Finance Partnership
CBFO	Community-based Financial Organization
CGAP	Consultative Group to Assist the Poor
DTRF	Decision Tools for Rural Finance
ESA	East and Southern Africa
FSP	Financial Service Provider
FFR	Financing Facility for Remittances
GALS	Gender Action Learning System
IF	Inclusive Finance
IFS	Inclusive Financial Services
IOE	Independent Office of Evaluation
IOF	Innovation and Outreach Facility
KM	Knowledge Management
LAC	Latin America and the Caribbean
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
NEN	Near East and North Africa
PARM	Platform for Agriculture Risk Management
PFI	Partner Financial Institution
PMU	Project Management Unit
PSC	Project Steering Committee
RAFP	Rural and Agricultural Finance Programme
RFDT	Rural Finance Decision Tool
RFP	Rural Finance Policy
SCG	Savings and Credit Group
SMEs	Small and Medium-sized Enterprises
TA	Technical Assistance
VSLA	Village Savings and Loan Association
WCA	West and Central Africa

EXECUTIVE SUMMARY

Propelled by improved regulatory regimes and national financial inclusion strategies in many IFAD programme countries, the supply of inclusive financial services (IFS)[1] for the poor has seen rapid growth in most countries since the beginning of the century. Disproportionally found in urban markets, growth of access to IFS in rural areas, for both on- and off-farm financial needs, remains severely limited in most markets, and even where there is access to financial services, these may be little-used and have limited impact.[2]

The provision of IFS to rural smallholder households is among the most difficult challenges in finance and development more generally. While development agencies, IFAD included, have seen some success overcoming the many challenges facing increasing rural IFS expansion – high transaction costs, development of rural poor appropriate services, fragile social, economic, and environmental contexts – the spread of financial services remains uneven and far less than ideal for the poor to fully participate in growing market economies.

For some forty years, IFAD has worked to increase financial inclusion for the rural poor, an effort that has improved the lives of an estimated 130 million beneficiaries. For the last decade, IFAD's IFS has been guided by its Rural Finance Policy (RFP – 2009) and Rural Finance Decision Tools (RFDT – 2010), and remains a committed global leader in the field. Notably, over the decade 2009-2019, IFAD has deployed 238 IFS interventions using a variety of approaches, instruments and products across its global portfolio, resulting in a rich reserve of experiences – some more successful than others.

Some of these experiences were recently captured in the Evaluation Synthesis Report on Inclusive Financial Services for the Rural Poor (IOE IFS Evaluation Synthesis),[3] which recommended, among other things, IFAD to undertake a stocktaking and comprehensive review of its IFS activities and the RFP. The review would take both a global and a regional perspective, with the objective, of providing foundational information and stronger evidence with which to guide IFAD's IFS sector good practices as well as improving access of valued financial services for poor rural people. The stocktaking exercise has three expected outcomes:

1 Inclusive financial services (IFS) is used throughout this document in line with IFAD's Strategic Framework (2016-2025), which includes IFS as an area of thematic focus. It states 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."

2 Access to finance is only one component of IFS. For rural financial services to be fully inclusive and effective, they must be used by and be of sufficient *quality* to support improvements in their livelihoods. Thus, the term IFS is inclusive of all three components: access, usage and quality.

3 Evaluation Synthesis Report on Inclusive Financial Services for the Rural Poor, Independent Office of Evaluation, 19 June 2019 (IOE IFS Evaluation Synthesis).

1. Qualitative definition of the development effectiveness of IFAD's IFS interventions in five regions, including the main opportunities and challenges;
2. Assessment of IFAD's strategic and institutional capacity to address main challenges and opportunities facing IFS programming; and
3. Input to IFAD's IFS policy update/development at the regional and corporate levels.

The stocktaking assesses IFAD's capacity to deliver IFS and addresses rural poor market development needs both historically and looking forward within the context of emerging opportunities and challenges. It includes both programmes and projects[4] where IFS interventions predominate and/or are a smaller part of a larger programme of activities; it focuses on how *instruments, approaches and products* are designed and deployed, within both projects and country contexts. Integration of IFAD mainstreaming themes of environment, climate change, nutrition, women, youth and other disadvantaged groups are also assessed. Analysis offers observation on operational issues, as well as providing strategic direction and policy guidance for IFAD as it engages in markets to further its institutional goals.

The stocktaking exercise was carried out between June and October 2020. It included a desk review of external and internal IFAD documents, which was followed by a deeper analysis of a sample of projects, definitions of key terms and a short survey of relevant IFAD programme management staff.

OVERVIEW OF KEY FINDINGS

The IFS programme sample illustrates a rich experience in the application of a variety of IFS instruments and approaches, though programmes tended to adopt a more limited number of instruments and approaches on a regular basis – particularly lines of credit, guarantee mechanisms, and savings and credit groups (SCGs).

IFAD has a comparative advantage in the use of community-based financial organizations and related grass roots approaches to IFS. Community-based financial organizations (CBFOs) such as tandas, sanduqs, village savings and loan associations (VSLAs), and others have seen widespread implementation and success across the five IFAD regions. Some CBFOs programme interventions also have the intention of linking with the formal financial system or incentivizing financial service providers (FSP) to serve rural markets. However, these efforts saw uneven success.

Women, youth and indigenous populations targeted but not always specifically served. The extent to which women, youth and indigenous peoples are proactively supported and integrated into projects – for both IFS and non-IFS interventions – is limited. In most cases, this inclusion amounts to a target percentage of beneficiaries, rather than proactive strategies to understand and target these populations. Consequently, IFAD did not maximize potential impacts, representing a notable missed opportunity in some projects.

4 Throughout this document, "projects" refers to single interventions and "programmes" to multiple projects following a country programmatic approach.

The instruments used by IFAD are becoming more innovative, but this innovation was less about pursing new initiatives and more about adopting proven instruments in a new context. Still, while few projects employ emblematic innovations – emerging risk capital, digital technologies, or emerging risk management instruments – IFAD has made good, if regionally uneven, progress in developing instruments that harness private sector innovation for rural finance (such as the use of innovation and outreach facilities (IOFs) in East and Southern Africa (ESA) and Asia Pacific Region (APR)).

There has been a move toward supporting more innovative financial products and approaches. There has been a modest shift away from CBFOs, with a similar increase in support of commercial financial institutions. The use of graduation programming has not significantly changed across the decade. At the same time, there was overall growth in the global sample of innovative products, such as mobile money-linked products, micro-insurance, leasing/micro-leasing and remittances/diaspora investments.

Financial activities seem to thrive more in projects with greater business rigor. This success often came from better alignment of incentives between the demand side and FSPs. Rural finance interventions were often an effective outcome enabler in projects with a focus on improving transaction cost benefits to smallholders. Private sector-driven value chain interventions are an example, as they provide several opportunities for targeted IFS activities supporting non-IFS outcomes, including input or warehousing finance, working capital and asset loans, and insurance.

Project theories of change were of uneven quality. Projects often lacked robust theories of change for how interventions would achieve their ultimate outcomes and impacts, particularly in the context of specifically-targeted beneficiaries. This typically meant that even when projects were implemented as planned, the impact that they achieved fell short of what it could be. Stronger theories of change would also support better integration of IFS with non-IFS activities and development of more robust monitoring and evaluation (M&E) frameworks.

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1 INTRODUCTION

This IFS stocktaking exercise follows from the 2019 IOE IFS Evaluation Synthesis, which recommended that IFAD "conducts a stocktaking of current IFS practices on the ground". The purpose of the recommendation was to ensure that lessons learned over the decade since the 2009 Rural Finance Policy were systematically documented and integrated into future policy and programming.

The stocktaking provides a thorough assessment of the approaches, instruments, and products[5] employed by IFAD programmes designed in the ten years after the launch of the Rural Finance Policy in August 2009. The stocktaking exercise is not an evaluation; it does not directly address the outcomes and impacts of IFAD programmes, nor does it assess the RFP as a guide to IFAD's rural finance assistance. Rather, it focuses on how instruments and approaches are designed and conceptually integrated within programmes and country contexts, as well as how they have been used by recipients. It also offers a sense of the sustainability of benefits. Programmes selected for analysis include those where IFS was the predominant intervention as well as ones where they were not.

The broad objective of the stocktaking is to provide substantive, foundational information and evidence with which to guide IFAD's engagement in IFS. Analysis focuses on the RFP's twin goals of: i) ensuring that smallholder and rural poor have access to sustainable financial services that contribute to their improved welfare; and ii) facilitating good practice IFS, supporting market-driven business models, financial sector support infrastructure and enabling policy and regulatory frameworks.

5 The differences between instruments, approaches and products are detailed in chapter 2.

With these goals in mind, the stocktaking has three expected outcomes:

1. Qualitative definition of the development effectiveness of IFS of IFAD interventions in five regions, including the main opportunities and challenges;
2. Definition of IFAD's strategic and institutional capacity to address the main challenges and opportunities facing IFS programming; and
3. Input to an update of IFAD's IFS policy at the regional and corporate levels.

Chapter 2 of this report provides an overview of the three-part methodology employed for analysis: programme selection, the stocktaking survey and the analytical framework. **Chapter 3** presents findings from applying an analytical framework developed to assess the selected sample of IFAD's programmes with IFS activities. **Chapter 4** presents finding at the regional level. **Chapter 5** assesses IFAD's global and regional grants relating to IFS.

Based on findings from the programme analysis, **chapter 6** presents the report's summary conclusion, which includes a view of strategic opportunities and challenges. Special emphasis is placed on strategic clarity, deployment of appropriate IFS and related instruments, loans and grants programme accountability, as well as knowledge management, learning and capacity development. **Chapter 7** provides recommendations on how IFAD can strategically engage in IFS to further its institutional goals.

FIGURE 1. KEY FINDINGS OF IOE IFS SYNTHESIS

The IOE IFS Synthesis found:

- Major deficiencies in project design and operations;
- Limited capacities of implementing partners, incumbent financial service providers and IFAD's in-house capacity;
- Reliance on traditional instruments;
- Limited outreach to IFAD's target group; and
- Limited sustainability and impact.

The two most important issues to be addressed:

1. Operations, predominantly target group centricity and demand orientation in the design of projects; and
2. Weak implementation capacity on the ground.

A primary recommendation of the synthesis is to update the IFAD Rural Finance Policy of 2009.

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2 METHODOLOGY

PROJECT SAMPLE SELECTION

The project sample selection had the objective of selecting a set of projects that allowed for a systemic analysis of an indicative **set of global and regional IFAD-supported IFS projects**. The stocktaking took as its sampling frame the accumulated submissions from IFAD to the annual CGAP Funder Survey from 2012 until 2019, which represents all IFAD-funded projects considered to have a substantial IFS component. To select the sample, an iterative selection process was used based on the following criteria:

FIGURE 2. IFS STOCKTAKING SAMPLE

	No. projects	% IFS in region
Asia Pacific	22	40.0%
East and Southern Africa	12	38.7%
Latin America and the Caribbean	11	55.0%
Near East, North Africa, Europe and Central Asia	11	52.4%
West and Central Africa	11	37.9%
Total	67	42.9%

- Projects must have been designed in 2010 or later, and the sample should include projects proportionally distributed over the last ten years;
- A target of at least 30 per cent of all IFS projects per region (see Figure 2);
- Projects must have a substantial IFS budget relative to the overall project budget (typically no less than US$1 million); and
- A representative mix per region of pure IFS projects vs. projects with IFS integrated in broader themes.

Projects were selected in two rounds, each with the input of IFAD Regional Rural Finance Specialists. During the review, four projects initially selected were dropped from analysis due to lack of documentation, resulting in a sample of 67 projects or 28.2 per cent of all IFS projects over the past decade.[6]

IFAD INTERNAL IFS STOCKTAKING SURVEY

A short survey was developed and administered to all Country Directors, Programme Officers, Regional Economists, Portfolio Advisers and other select IFAD staff (see annex 4). The survey included five open-ended questions focused on the RFP, shifts in IFS over the last decade, IFAD funded IFS project design and operational capacity, IFS knowledge management and dissemination, as well as strategic advantages for IFAD in the future. The survey was sent out at the end of August 2020 and closed for input 30 September 2020 but only 14 responses were recorded.

ANALYTICAL FRAMEWORK

The IFS stocktaking analytical framework assesses sample projects based on three broad perspectives: alignment, relevance and effectiveness, and capacity. The framework employs 10 components, and within these, 53 variables are used (see annex 3 for a full list of the variables).

A. Alignment components

1. Alignment with the Rural Finance Policy
2. Alignment with country context
3. Alignment with and support to key transversal and inter-donor issues/themes

B. Relevance and effectiveness components

1. Market-driven beneficiary demand perspective
2. Market-driven financial partner/institution demand perspective (at micro, meso, and macro levels)
3. Programmatic integration (IFS and non-IFS interventions)
4. Use and application of instruments – Traditional and innovative/emerging

C. Capacity components

1. Capacity of IFAD to manage and supervise programmes
2. Capacity of programme implementer (Programme Management Unit and Programme host ministry)
3. Inclusive Finance (IF) and Non-IF project outcomes aligned

6 This is a percentage of *all projects that include any IFS component*, rather than just of pure or major IFS projects.

Variables were designed to facilitate a broad, primarily qualitative assessment of projects and were drawn from several sources including the RFP, the IOE IFS Evaluation Synthesis, the IFS Stocktaking terms of reference, conversations with IFAD IFS specialists and select external documents.

While the list of components and variables is representative of good practice IFS development themes and issues, the framework is designed for IFAD's portfolio and is not meant to be applied in all contexts. The framework has the goal of providing a consistent analytical approach across projects and regions.[7] Other questions and consideration are noted when applicable.

Components are "scored" on a scale of 1 to 6,[8] however, these assessments only provide the means to qualitatively compare the relative characteristics of programmes for each component. Not all variables are relevant for each programme, and they are not scored in this case, nor are they to be considered comprehensive or exhaustive. Combining the 10 component scores provides an indicative and relative expression of overall IFS portfolio performance. The scores are qualitatively indicative both because the sample is not representative and because assessments are not based on an exhaustive analysis of effectiveness and impact. Viewed regionally, scores give a sense of relative (not absolute) comparative performance, and they show more the differences between components within regions. Throughout the analysis, the example programmes cited are usually representative of a number of programme activities.

Analysis focuses more heavily on design than effectiveness. There are two reasons for this: first, the RFP has more direct impact and influence on design than implementation, and it better reflects the intention than the assessment of effectiveness. Second, focusing on design rather than effectiveness allows for the isolation of variables relating to alignment, relevance and capacity without needing to account for factors like the quality of project management and unanticipated contextual disruptions, which are more relevant to an evaluation than they are to a stocktaking exercise.

7 For detailed methodology, see annex 1.

8 Scoring was for internal use only as a means to guide analysis, allowing researchers to compare and contrast findings. The usage of the 1-6 scale was designed to be conceptually consistent with IFAD's assessment methodologies; however, it is important to note that the scoring does not represent any formalized IFAD assessment criteria. It should be seen as a comparable assessment framework. The ratings are: 1: Highly unsatisfactory, 2: Unsatisfactory, 3: Moderately unsatisfactory, 4: Moderately satisfactory, 5: Satisfactory, 6: Highly satisfactory.

FIGURE 3. DEFINITIONS OF INSTRUMENTS, APPROACHES, PRODUCTS AND INNOVATION

The word "instrument" is used broadly across IFAD programming, and the meaning can vary widely across different contexts. For example, a credit guarantee scheme can be an instrument but so can an individual loan to a farmer. In order to provide a consistent basis and a common understanding for the stocktaking analysis, this report builds on previous definitions used in the IOE IFS Synthesis and develops a simple framework to describe the different ways in which the term "instrument" is used:

- **Instrument(s)** refers to the tools used by IFAD programmes to affect change in a financial market system. They describe how funding is distributed by IFAD. Examples of instruments include: credit lines, matching grants, technical assistance (TA) or equity investments.
- **Approaches** describe the high-level ways in which IFAD engages with a market system. These are often more abstract and can be overlapping. Examples of approaches include: the graduation approach, value chain approach, community-based finance approach or commercial finance approach.
- **Products (and services)** are how the end-customers engage with the financial sector. Examples include: agri-SME loans, microcredit, mobile payments or community-based savings accounts.

The differences between these categories are not always distinct; for example, village savings and loan associations (VSLAs) could be both an approach and a product; an innovation and outreach facility could be both an instrument and an approach. The purpose of the definitions is not to provide absolute categorizations but rather to provide some clarity on what is meant by these various terms.

The term **innovation/innovative** is used in two ways in this stocktaking. First, it is used in a narrow sense to describe the instruments, approaches and products that are relatively new for IFAD and in IFAD-funded programmes. For example, credit lines are traditional rural finance programming instruments, whereas challenge funds/innovation facilities can be seen as more innovative instruments; microcredit is traditional, while microinsurance is relatively innovative.

Second, innovation is also used in a broader sense to describe new ways of thinking within IFS. In this context, innovation can often be conflated with the growth of digital technologies. However, innovation does not require technology as it can equally refer to a new business or operational model that leads to improved efficiency, effectiveness or competitive advantage. Innovation can refer to radical/disruptive methods, such as a new untested product or business model. Innovation can also be incremental, such as the application of a proven model to a new market.

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3 PROJECT ASSESSMENT

This section presents the findings of an assessment of 67 projects with substantive IFS intervention designed in 2010 or later (i.e. after the articulation of IFAD RFP in 2009). This number represents 28.2 per cent of the 238 projects with an IFS component that IFAD invested in over the same period (see Figure 2 for details). The objective of the review is to provide a structured and rigorous assessment of an indicative sample of IFAD's IFS interventions within the context of global IFS trends and good practice. Analysis focuses on IFS as a standalone activity and, where applicable, how it is integrated in non-IFS interventions. Analysis also includes how IFS addresses mainstreaming themes of the environment and climate change, nutrition, gender and youth. The overriding focus is assessing the contribution of IFS programmatic interventions to positive and sustainable beneficiary household impacts.

This section assesses project design and effectiveness (at a general level) guided by the ten IFS Stocktaking Framework components and the 53 variables described in chapter 2. The list of variables (detailed in annex 3) is neither exhaustive nor definitive, nor are the variables equally relevant to all projects, but they have the intention of reflecting good practice perspectives related to each component. Combined, the variables form a context and programme "flexible" framework for critical and consistent analysis across both projects and regions.[9]

9 Combining all component scores provides an indicative and relative expression of overall IFS portfolio performance. The scores are qualitatively indicative both because the sample is not representative and because assessments are not based on an exhaustive analysis of effectiveness and impact. Viewed regionally, scores give a sense of relative (not absolute) comparative performance and show more the differences between components within and between regions. The variations in inter-regional scores should not be considered significant, as the scoring was carried out independently without calibration across regions.

ALIGNMENT COMPONENTS

RFP alignment

This component expects to see financial and non-financial programme activities consider and accommodate, as necessary, any substantive implementation context element with regards to guidance found in the RFP. Activities must be supported by and supportive of government intentions, international good practice, and the supply and demand market context. Alignment should fill market gaps and lead to sustainable beneficiary access to financial products and services as well as related household production/enterprise income/asset gains.[10]

What we expected to see

- Clear, coherent design of major programme elements with the RFP.
- Design and implementation of interventions aligned with guidance from the RFP and RFDTs, particularly as they relate to the needs of beneficiaries and participating FSP.
- Notification of divergence from RFP and/or RFDTs with reasonable justification.
- Appropriate IFS and related instruments.
- Alignment with international best practices and standards.

SUMMARY OBSERVATIONS

Projects were designed with reasonable alignment to the RFP and the RFDTs; and international good practice approaches were generally employed, though assessments of the supply and demand context was often superficial, which resulted in uneven implementation effectiveness.

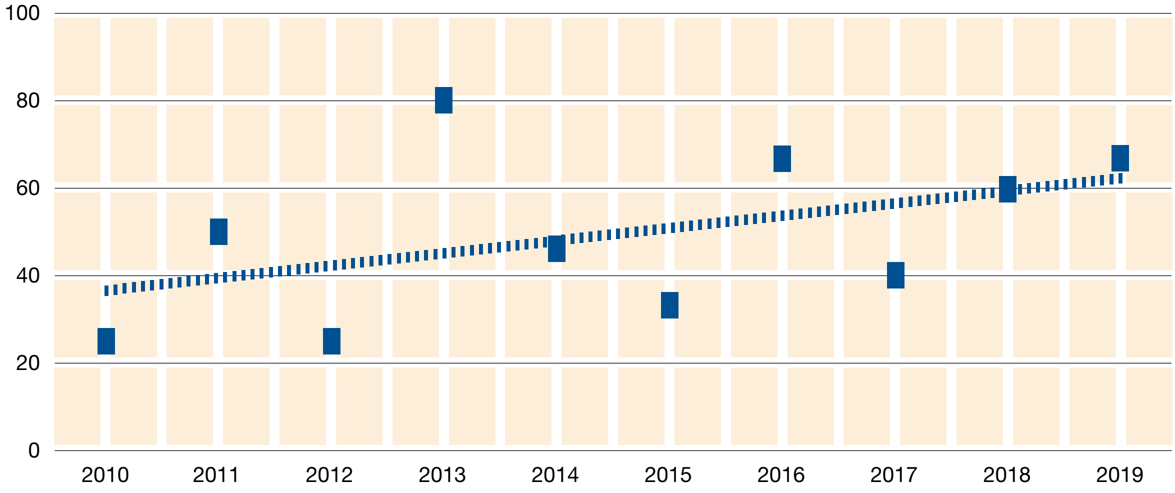
At a conceptual level, IFS projects were mostly well-aligned with the RFP, the RFDTs, and good international IFS practice. Programme alignment was less consistently well calibrated with the economic and financial sector realities/context required to ensure full alignment with the principles underlying the RFP. Frequently weak supply and demand analysis did not always allow for consistently market-focused interventions, which lead to activities that could undermine sustainable outcome goals.

A notable number of programmes did not refer to the RFPs, while others claimed alignment without providing substantial evidence to that effect. In some programmes, alignment with the RFP appeared more as a "box to tick" than a set of guiding principles for IFS intervention design. Consequently, programmes were often too focused on one type of financial service or institution, and they inadequately promoted demand-led services. Alignment with the RFP, in particular the promotion of savings and other non-credit financial services, improved in more recent programme designs. (See **FIGURE 4**).

In line with the RFP, IFS programming has had a strong programmatic focus on savings, either directly through savings incentives grants to beneficiaries or through CBFOs – an instrument that has also favored women and youth. This emphasis has increased with a better understanding that IFS is more than simply access to and use of credit; and as encouraged by RFP and RFDT over the past decade, more than half of the most recent projects included some focus on savings, compared to only a quarter in 2010.

10 See annex 3 item 1 for a list of specific variables considered.

FIGURE 4. PROPORTION OF IFS PROGRAMMES WITH AN EMPHASIS ON SAVINGS

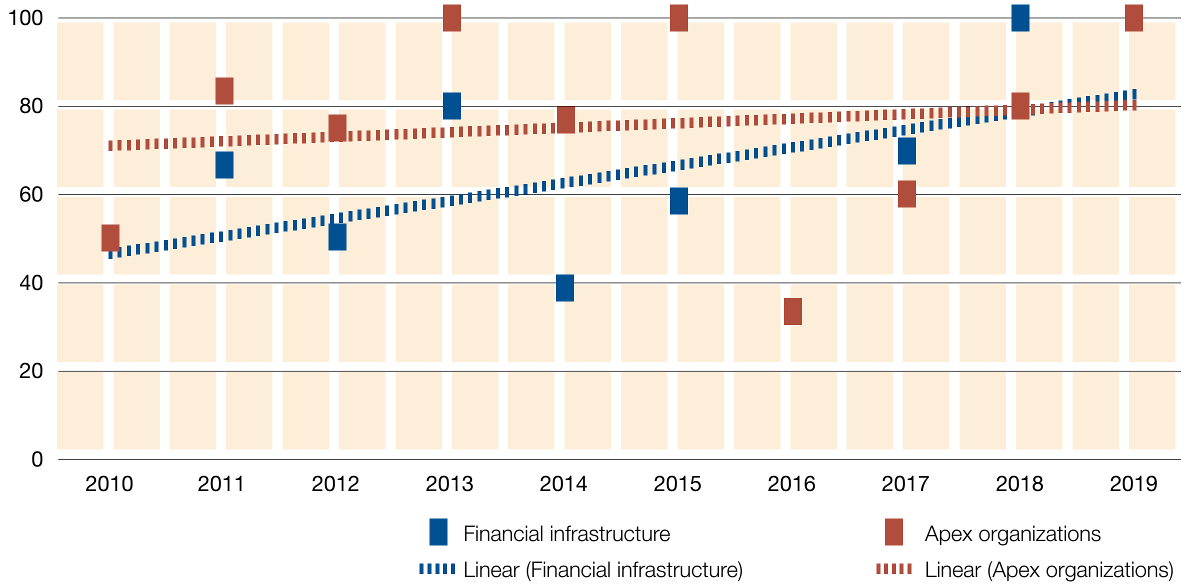


The demand for specific financial products or services by beneficiaries is rarely discussed in design beyond a general level, and it is often left to the project to determine during implementation with the support of a FSP. This approach has met with less than full success in a large proportion of interventions. Demand analysis is taken up in more detail under component 4 below. It should be noted that in design, market analysis tended to focus on finance as a need, as opposed to provision of a detailed understanding of the products and services *required* to improve beneficiary welfare and to make a compelling business case for their provision on a sustainable basis.

Similarly, supply-side analysis is often limited, and typically provides extensive overviews of financial systems but seldom includes the details needed to incentivize proactive FSP involvement. Broader contextual analysis was critically important earlier in the decade when IFS sectors were less well developed and agencies like IFAD had less experience promoting market-based IFS interventions. Broad-based sector analysis is now of much less practical use, and keying in on specific constraints related to proposed activities would likely yield more precise alignment with the RFP and international good practice (e.g. analysis would point to specific issues at micro, meso and macro levels that represent opportunity or constraint, omitting information not directly relevant to project implementation). In addition, potential partner FSPs must provide greater confidence at design of their future participation than what is often offered in design – "banks have expressed great interest in the project" is a phrase that has proven insufficient to translate into real collaboration in a notable number of cases.

Meso-level programming has increased in emphasis over the past decade. In line with the market systems-based approach of the RFP, projects have increasingly focused on developing effective infrastructure and human and institutional capacities for inclusive rural finance. The IFS Evaluation Synthesis found that, "Overall, the projects which achieved better impact were those which worked through meso-level institutions." By the end of the decade, all new IFS projects included some component relating to meso-level financial infrastructure and apex organizations, compared to only half in 2010 (**FIGURE 5**).

FIGURE 5. MESO-LEVEL PROGRAMMING – PROPORTION OF PROJECTS WITH FOCUS ON FINANCIAL INFRASTRUCTURE AND APEX ORGANIZATIONS



Subsidies continue. The RFP says interest rates to clients should not be subsidized, interest rate caps to FSPs and other similar market-distorting interventions should not be supported. This policy is prima facie sound. However, in practice, there are few genuine market-based rural finance markets as governments more often than not offer some form of direct or indirect subsidies to FSPs or consumers to lower the cost of finance. Where possible, IFAD-funded projects advocate market-based solutions; nonetheless, in many cases this is not possible without accepting established, lower-than-market-rate setting norms (e.g. IFRFSP Armenia). Taking a market-development approach, working at the meso and macro levels, has helped market actors operate more effectively, often facilitating prices that better reflect the actual loan cost (e.g. usually between the *perceived* versus the *evidence-based or real* price of capital for agricultural and rural loans). In the context of this stocktaking exercise, it is difficult to quantify the extent to which matching incentives have become a near default solution to addressing high market interest rates and have replaced subsidized FSP lines of credit as a means to lower interest rates to beneficiaries (see matching grants below).

SUMMARY CONCLUSIONS

Design needs not be uniformly "compliant" with the RFP to ensure a good practice approach. Alignment must ensure appropriate good practice approaches are considered and integrated in design, and that no substantial constraint to supporting the goal of sustainable access to finance are left unconsidered (i.e. appropriate and market-driven beneficiary and market outcomes are probable, given intervention design). This implies that projects can use targeted subsidies if the probable result is beneficiary asset and income enhancements supported by what ultimately becomes sustainable financial services.

Concrete alignment with relevant market system elements of the RFP is a good practice approach. When the objective of alignment with the RFP had a greater focus on the implementation modalities employed and less on general assessments of micro (supply and demand), meso and macro levels, implementation guidance was often direct and clear. This helps with charting a course for development of the products and services to be used and their impact on the beneficiaries' and sectors' sustainability outcomes – i.e. more transactional than conceptual.

What we expected to see

- IFS activities and objectives that are clearly linked to and supportive of government policy and programmes and have synergy with other active donor projects.
- Clear alignment with existing and anticipated national operating economic and social contexts.
- Clear understanding of how IFS and non-IFS project elements align with and/or support other donor agency activities.

RFP alignment with country context

This component examines whether design logic aligns with the coherent development of the IFS sector, as well as the broader country economic and social development context, including government policy, regulation, or programme and related donor activities. Design is not meant to fill all market gaps to be coherent, nor uniformly employ fully market-driven approaches to support sustainable market outcomes for the beneficiaries, the sector or FSPs. Instead, it looks for alignment with relevant government programmes, policy and action that clearly support advancing the mutual IFS interest of government, donors and programmes.[11]

SUMMARY OBSERVATIONS

Project alignment with the broader national development goals, as well as related donor agency and public and private partner institutions/activities, is generally good; but alignment was more relevant when it was concrete and action-oriented, and less so when passively reflecting more "general" statements of alignment.

Projects were largely aligned with government and other development agency activities. Earlier projects often had more and larger IFS sector-building elements and would address market gaps at one or more of the macro, meso or micro levels. This approach logic was more clearly articulated in standalone projects than in projects where IFS did not predominate. Across the IFS portfolio, better definition of sector goals and development needs were often lacking and thus limited a project's effectiveness.

Projects often assumed that addressing one IFS sector constraint (e.g. poor savings levels) would resolve others (e.g. access to credit or risk management products) or, similarly, that non-financial activities focused on financial risk reduction would do likewise (e.g. individual/organizational business plans, TA leading to credit). A more systems-based approach would recognize that multiple constraints could exist simultaneously, and there is a need to work at different levels of the market to achieve genuine change. In the absence of more precise beneficiary financial needs analysis, nearly all projects suffered inadequate analysis underlying these assumptions and led to uneven outcomes both within and between projects.

Project designs mostly lacked a robust theory of change spelling out the logic and evidence of how IFAD's interventions were planned to change behaviors at the individual, organizational, and system levels through the chain of outputs, outcomes and ultimate impact. The IOE IFS Evaluation Synthesis reasons: "Impacts on rural poverty are expected to flow from the economic and social benefits arising from

11 See annex 3 item 2 for a list of specific variables considered.

the provision of financial services", but the channels through which these flows happen need to be made clear and tested. Where programme-level theories of change were provided, they were often basic (e.g., INCLUSIF Mali). Integrating theories of change in design would allow projects to better appreciate the complexity of the agricultural, financial and other systems in which they operate while providing project management units (PMUs) a firm understanding of the underlying logic driving project outcomes. Stronger theories of change – which were not found in the project sample – would also support better integration of IFS with non-IFS activities and the development of more robust M&E frameworks.

Projects with both IFS and non-IFS activities that targeted one or a small number of well-defined and organized value chains often had clearly defined IFS constraints and needs, as in the case of livestock value chains in the ATMP Kyrgyz Republic (meat and milk particularly). By contrast, alignment with or attention to predominating non-IFS issues could confound project IFS activity design and outcomes. In Bolivia (Plurinational State of) and Brazil, the Buen Vivir and Viva o Semi-Árido programmes were well aligned with national territorial and social solidarity development, but they overestimated beneficiary demand for credit due to a poor understanding of group interests and capacities to participate in IFS inputs.

Because IFAD-funded projects can last up to a decade, it is important that they be sensitive to the country context at time of design but also be "design flexible" to allow for change in the country context without losing their original focus. The RFCIP II in Sierra Leone and RCFP in Liberia had to adapt to the Ebola crisis, which fundamentally changed the macro, meso and micro contexts in which they were operating. RCFP demonstrated the importance of demand-led design, which helped to better understand the impact of the crisis on target populations and then to design recovery programming from a platform of strong coordination with local stakeholders. Projects with close links to value chain actors (e.g. VCDP Nigeria) were also able to leverage relationships to respond to changes in demand. Mid-term reviews as well as project supervision should allow for rapid response to a major change of framework conditions, crises or fragility. In particular, the COVID-19 pandemic has highlighted the need for repurposing of ongoing projects.

Projects with design flexibility[12]

- Liberia: RCFP
- Nigeria: VCDP
- Sierra Leone: RFCIP II

While most projects had informal relations with other donor agencies in both design and implementation, very few projects had structured formal interaction (e.g. institutional platforms/mechanism for mutual learning and support). Formal inter-agency cooperation was constrained by uncoordinated project design timing, institutional processes and policies differences, IFAD's limited in-country and international expert staff, as well as country programme management limitations. At the time of the stocktaking, there were no signs of significant improvement as an outcome of establishing regional technical specialists in hubs. There were exceptions, including in ILSP in India, where IFAD convened a Donor Harmonization Workshop during design to ensure collaboration with India's National Rural Livelihood Mission programme.

Projects with formal interaction

- Afghanistan: RMLS
- India: ILSP
- Moldova: IRCER
- Uganda: PROFIRA

12 Highlighted projects in pull out boxes throughout this document provide illustrative examples of activities and do not represent all project in the sample with similar characteristics.

Another example is RMLS in Afghanistan, which had support from the World Bank and Italian cooperatives during the implementation period. In IRCER in Moldova and PROFIRA in Uganda, donor coordination had IFAD-funded projects focused on micro and meso-level CFBO sector building, leaving policy or the macro level activities to the World Bank.

SUMMARY CONCLUSIONS

Align with what counts most. Alignment with the full range of government programmes is of less value than the identification of government policy and action that might have specific implications for IFS activities. Identification of policies, which concretely establish linkages and common points of government and project interests, would provide potentially valuable guidance for implementation. RUFIP-II in Ethiopia illustrates the impact of IFAD through the twinning arrangement between the Federal Cooperative Agency and the Irish League of Credit Unions Foundation with respect to policy alignment and implementation of the national roadmap for rural savings and credit cooperative development.

Focus on supply and demand alignment as a first principle to ensure that the specific context of supply and demand are aligned with relevant government and donor activities thus offering the potential to leverage influence and/or resources.

What we expected to see

- Clear, coherent plans for integrating specifically social and environment concerns into IFS activities, particularly specific need/demand considerations, especially in regard to marginalized peoples.
- Clear understanding of how IFS and non-IFS project elements support short-term borrowing/ environmental outcome objectives.
- Inter-institutional activities with specific mutual programmatic outcome objectives.

Alignment with and supportive of key mainstream and inter-donor issues/themes

Project IFS design must define a coherent logic of how financial tools are aligned with and support mainstreaming objectives as they relate to IFAD's crosscutting themes – environment, climate, nutrition, gender and youth.[13]

SUMMARY OBSERVATION

Beyond output and outcome targets, IFS activities do not consistently address the substantive needs of specifically targeted beneficiaries, the environment, and other mainstream themes. Projects must move beyond simple participation targets to approaches that consider specific IFS instruments, approaches and products that can attributably improve specifically-targeted beneficiary livelihoods and social empowerment goals. Similar considerations are required for substantive treatment of climate, natural resource management and nutrition.

13 See annex 3 item 3 for a list of specific variables considered.

Projects targeting specific IFS needs

- Bangladesh: PACE, RMTP
- Columbia: PROCANOR
- Indonesia: YESS
- Myanmar: FARM
- Paraguay: PROFAMI
- Syria: ILDP

Projects that fully assessed, planned and targeted specific beneficiary IFS needs/demand were by far the minority, but they were typically more effective than those that did not. There were a range of approaches, including graduation (ILDP Syria), savings (PROCANOR Colombia), credit (bonus incentives for women/youth, PROFAMI Paraguay) and, most commonly, savings and credit schemes such as village savings and loan associations (VSLA). YESS in Indonesia provided concessional loans to the unemployed via VSLAs; PACE in Bangladesh targeted the ultra-poor, including borrowers graduated under previous projects; and other projects targeted disabled, youth or landless people (e.g. FARM Myanmar; SAP Sri Lanka; YESS Indonesia). RMTP in Bangladesh has introduced a special loan product for women.

Approaches to supporting gender and youth were generally found to be overly simplistic and reliant on disaggregation of indicators in the results framework. Most programmes targeted 50 per cent female participation in IFS activities (though typically less so in non-IFS activities and for youth on both counts), which is positive, as it focuses implementing team attention; but targeting alone is insufficient to mainstream thematic interventions. Effective gender and youth strategies should be based on a thorough analysis of target groups, their socioeconomic status, behaviors, incentives and the intersectionality of their gender/youth with other aspects of their livelihoods.

Women and youth are not homogenous groups, and their heterogeneity must be assessed in order to develop more nuanced targeting and outcome maximization strategies. Some programmes addressed the need to increase women, youth and other disadvantaged population social empowerment, asset development and increased access to enterprise training (e.g. lead-enterprise credit windows for women, ADMP Uzbekistan). The relatively recent introduction of Gender Action Learning System (GALS) methodology (e.g. RFCIP II Sierra Leone) has enhanced beneficiary household capital development.[14] Similar empowerment targets for youth and women in private and public sector settings have been positively, though not systemically, leveraged though IFS activities (e.g. negotiating and management participation parity).

Projects addressing marginalized peoples

- Sierra Leone: RFCIP II
- Uzbekistan: ADMP

Nutrition was included but rarely integrated. Nutrition was commonly included in results frameworks as a high-level indicator, but it was rarely accompanied by clear analysis that included concrete action and a plausible theory of change for how IFS interventions would support improved nutritional outcomes (RDNS Laos and CCVP Viet Nam projects provide good examples for future projects to follow). For those projects that did address nutrition, they typically assumed that improved IFS access would support increased agricultural productivity/enterprise activities

Projects with a focus on nutrition

- Laos: RDNS
- Viet Nam: CCVP

14 GALS (Gender Action Learning System) is a community-led empowerment methodology that uses principles of inclusion to improve income, food and nutrition security of vulnerable people in a gender-equitable way.

which, in turn, would lead to improved nutritional outcomes. This theory was frequently substantiated in baseline-end line survey comparisons. However, in the absence of a cogent model linking IFS to nutritional outcomes, nutritional gains are hardly assured let alone fully addressed.

Projects with supporting environment

- Bangladesh: PACE
- Ecuador: Buen Vivir
- Zambia: RUFEP

IFAD interventions have some modest experience supporting environmental objectives, including environmental considerations in beneficiary business plans and loan applications (Buen Vivir Ecuador), or by encouraging new environmental products like PAYGO solar and clean cook stoves (RUFEP Zambia). In Viet Nam, the CCA builds climate resilience with a number of non-financial interventions, which leverage capital value chain investments. IFS interventions have also helped to finance production interventions which improve smallholder household resilience, as well as reduce carbon emissions (e.g. PACE Bangladesh).

The linkages between IFS activities and environmental and climate change considerations, however, were too often overlooked. Project designs often had a statement of "no impact" even as IFS had a measurable (if typically unmeasured) actual and/or potential (net negative) contribution to programme environmental and natural resource management impacts. In many projects, financial interventions were determined to have no negative impact, when raising smallholder income even though increased consumption leads to any number of increased environmental impacts not considered in impact analysis. There was often little more than passing mention of this tradeoff, and IFS was rarely linked to project social, environmental and climate assessment procedures (SECAP) analysis.

SUMMARY CONCLUSIONS

Design for IFS outcomes that directly relate to specifically-targeted beneficiaries. Expressing a target percentage of IFS outputs is generally insufficient in and of itself to expand the influence of IFS for achieving desired outcomes for women, youth, other disadvantaged populations, nutrition and the environment. Product development based on beneficiary needs, opportunities for training and empowerment (lowering perceived/real credit risk), and asset development are possible demand side improvements.

Leverage more from participating FSPs. There is potential to tie support for participating FSPs with broader goals. For example, agreements could include commitments for adopting mainstreaming activities, participation in regional and national standards, certifications, and organizations encouraging good environment, social and governance (ESG) performance.

RELEVANCE AND EFFECTIVENESS COMPONENTS

Market-driven beneficiary demand perspective

This component examines whether IFS products and services employed in IFS interventions meet beneficiary financial needs and capacity to use them to sustainably maximize intended welfare outcomes. For mixed IFS and non-IFS programmes, the links between IF products and services and non-IF activities are coherent and achieve expected beneficiary outcomes on a sustainable basis.[15]

What we expected to see

- Clearly defined and targeted beneficiaries.
- Pathways to access appropriate and sustainable financial services that can grow in type and number as beneficiaries advance their economic activities.
- Increasing use of IFS to support and maximize project non-financial outcome effectiveness and sustainability.

SUMMARY OBSERVATION

Limited analysis of beneficiary demand led to overly simplistic understanding of the various needs of target groups. This constrained IFS programme components from maximizing sustainable provision of a range of financial products and services as beneficiary needs grow and change.

Programme design and effectiveness were often stronger when demand side analysis was detailed. Programme design often assumed that a single financial product or service was sufficient to sustainably reduce beneficiary levels poverty or provide "entryway" access to other financial services. Some programme designs identified specific financial needs within and between households/groups (e.g. assessing financing needs for different sources of income generation). More detailed assessments of beneficiary financial needs, including risk exposure, were less frequent; but when present helped identify more effective IFS interventions (LMRP Sudan and URDP Turkey provide good examples). IFS designs within value chains programmes, particularly those with tight/organized chains, facilitated more detailed demand analysis (e.g. ILDP Syria).

Projects with a detailed demand analysis

- Syria: ILDP
- Sudan: LMRP
- Turkey: URDP

Beneficiary incentives can leverage interest and need for IFS. Beneficiaries assess the cost to benefits of participating in a programme, and participation is not automatic. Calibrating the incentives required to encourage full IFS participation were shown to be more successful when beneficiary market driven needs are met (e.g. improved production and market access). Programmes with targeted financial literacy/capacity development were not common, nor were incentives for beneficiaries to progress up the IFS product/service ladder (e.g. from savings to loans to risk products) or to solidify sustainability gains (e.g. LMRP Sudan paid SCGs to formally register with a regulatory authority).

Projects with beneficiary incentives

- Sudan: LMRP

The relationship between IFS and non-IFS interventions was not measured, potentially limiting effectiveness. The relationship between non-financial and IFS interventions were seldom assessed and often assumed (albeit mostly correctly) to provide/contribute to some degree of positive outcome leverage. The potential synergy was seldom articulated and rarely measured. Understanding the IFS and non-IFS interaction relationship will become increasingly vital as independent IFS programmes and components become less common in the IFAD portfolio.

15 See annex 3 item 4 for a list of specific variables considered.

Projects often treated access to IFS as a static outcome. As beneficiary production and enterprise grow, they will require access to a greater range of financial services. While many projects considered pathways to expanded services, few had much success in establishing sustainable links to financial services that expand to meet the array of evolving needs. Design intentions to develop more than one IFS products – enterprise loans, asset credit, risk adjusted on production loans and insurance products – saw limited achievements despite the potential of non-IFS project interventions for creating financeable production and enterprise opportunity.

Most interventions failed to articulate the possibility of extending the graduation programme concept beyond helping the ultra-poor access basic financial services and create more sustainable livelihoods as a first step along the path to increasingly sophisticated financial services. Many projects sought to link CBFOs to formal financial institutions with some notable, but still limited success. A strategic view to the goal of continuously graduating beneficiaries from one level of financial services sophistication to the next, no matter where they start, could potentially leverage greater project outcomes such as special targeting for beneficiaries that grow beyond basic needs, as was the case in NPGP in Pakistan.

Tight value chains offered an opportunity for targeting "high outcome leveraging" IFS activities. In well-organized value chains (e.g. livestock, coffee or dairy) beneficiaries were found to be like franchisees with homogenic financial needs at volumes attractive to suppliers. Other less-well-defined value chains could also offer this opportunity (e.g. CFBOs in PROFIRA informally took advantage of the growth of smallholder oil seed sector development supported by IFAD's VODP 2 in Uganda).[16] In these less-well-organized value chains, there may be a need for non-IFS activities before IFS interventions can maximize their effectiveness. IFAD can build on such experiences to better maximize beneficiary household outcomes as well as local/community economic multiplier effects.

Projects with targeted IFS activities

Uganda: PROFIRA

SUMMARY CONCLUSIONS

Better beneficiary demand analysis leads to better achievement of targeted outcomes. Improved demand analysis at design can better identify the needs of beneficiaries and their groups, substantially improving project effectiveness. Identification of analogous project interventions and in-depth engagement with beneficiaries prior to final design is critical.

Pre-programme startup intelligence supports participatory input to implementation and informs design adjustments. In the absence of detailed demand information and/or in the interest of successful project start-up, projects could invest in IFS beneficiary focus group piloting or scenario playing during the pre-start-up period of implementation. Doing so could prove useful with private sector partners whose opportunity costs often grow while waiting the on average 18 months between first learning of a project and becoming involved. Earlier action would also increase the odds of avoiding unanticipated and costly implementation challenges by identifying needed design changes earlier in projects than normal.

16 The PROFIRA – VODP 2 oil seed and palm oil programme will be followed on by National Oil Seed Programme (NOSP) and the National Oil Palm Programme (NOPP) in which CFBOs will be formally integrated. VODP 2 project is not included in the IFS stocktaking sample.

Maximize IFS sustainability impacts through pathways of constant graduation. All IFS projects should at least envision, if not design pathways for beneficiaries to access increasingly sophisticated financial services as they grow livelihoods, production and enterprises.

Market-driven financial partner/institution demand perspective

This component looks at PFI needs and capacities as a means to sustainably serve targeted beneficiary financial product/service needs for beneficiary household and on/off farm economic activities, both during the project and beyond, as their needs evolve.[17]

What we expected to see

- Proof of FSP capacity to respond to and serve beneficiaries' market-driven needs, especially as they change over time
- Ability to overcome or adapt to identified market gaps to provide sustainable access to product and services.

SUMMARY OBSERVATION

FSPs require subsidies in most operating contexts. In particular, private sector FSPs need incentives to enter the rural/agricultural financial services markets. Smart subsidies require precise FSP due diligence in combination with a compelling long-term business case to determine institutional ability to effectively participate in IFS programming. Effective exit plans for subsidy arrangements are also critical in order to ensure the sustainability of the approach. The more well-defined the understanding of FSP capacity/experience for serving rural smallholder markets, the more likely it is that sustainable services are developed.

Programme FSP due diligence was often superficial and/or faulty. General overviews of financial sectors were often limited to a listing of institutions by type and geographic proximity to programme target areas, and whether institutions serve the rural market. An FSP "general interest" in participation was often misconstrued as a willingness to participate or an assumption that participation would be automatic "when FSPs come to understand" the market. Programme design almost uniformly underestimated FSP interest in, or capacity to develop agricultural products/services often for the duration of a programme, let alone into the future.

Projects assessing opportunity costs

- Uruguay: PPIR

Project FSP due diligence rarely assessed opportunity *versus* opportunity cost. Design often had limited analysis of how FSPs would meet beneficiaries needs as a market-driven opportunity, or it demonstrated little understanding of FSP opportunity costs of alternative investments (e.g. banks are liquid and therefore are looking for new loan products). Business cases seldom used projected participant business volume and product/service margins. In contrast, the PPIR Uruguay design undertook a detailed assessment of the operating activities of a proposed partner financial institution compared to the proposed needs of the intervention.

[17] See annex 3 item 5 for a list of specific variables considered.

Projects that incentivize FSPs
- Eswatini: FINCLUDE

Good programme design assesses and incentivizes FSP based on their unique challenges and potential. A one-size-fits-all approach is likely to miss identifying the incentives needed to get FSPs serving rural clients. FINCLUDE in Eswatini is a young programme, but it has explicitly different approaches for each type of institution (banks, MFIs, SCGs mobile money operators, etc.) based on detailed analysis of current offerings, constraints and opportunities, target market and potential solutions.

Projects supporting sustainability
- Bangladesh: RMTP
- Sudan: LMRDP

While subsidies are becoming smaller, most FSP participation requires some form of support. There are few examples beyond well-functioning CBFOs of fully market-sustainable smallholder financial services being supported by IFAD projects at scale. Most often, projects do not articulate a coherent path/business case to full-market sustainability. The LMRDP in Sudan did this when it supported beneficiaries for three cattle fattening cycles with financing by ABSUMI, a quasi-state bank that established a credit history facilitating loans from commercial bank for the fourth round of finance. RMTP in Bangladesh provided micro finance and commercial finance loans respectively for different category of beneficiaries at varying interest rates.

Taking a more market-building approach, identifying where the market is currently failing (supply, demand, meso and macro) and designing interventions around developing the capacity/incentives to fill those gaps of FSPs are interventions promising lasting behavourial and business change. However, all these interventions need to be cautiously designed to avoid distorting what the market will do.

Building on familiar services can facilitate defined pathways to sustainable supply. Sanduqs (a type of CBFO in Syria linked to formal financial institutions) provided rural pastoralists a familiar and flexible financial tool (e.g. with inflation paid loans back in-kind such as a goat). That arrangement incentivized them to use formal financial services (ILDP Syria), as did paying top-performing CBFOs in Sudan to register with regulatory authorities after a year of development (LMRP Sudan), or where familiar, well-organized value chains required less market knowledge to serve (cattle/dairy ATMP Kyrgyz). Two components stand out in these designs: knowing clients financial and social context needs as well as the financial service business case.

SUMMARY CONCLUSION

Like Market Driven Beneficiaries (component 4), more in-depth due diligence must be done to understand project market creation potential and the financial opportunity for FSPs. Conversely, more must be done to help FSPs assess their capacity, interest and incentives prior to design finalization.

Project integration

This component assesses the extent to which the goals and activities of IFS and non-IFS interventions are interdependent and whether non-IFS project activities would generate market-based beneficiary production/ enterprise outcomes supporting planned financial services provision.[18]

What we expected to see

- A coherent understanding of the relationship between non-IFS and IFS project activities, their execution, and sequencing leading to sustainable beneficiary production/ enterprise and consequent access to financial services.

SUMMARY OBSERVATIONS

Projects with outcomes that required interdependent IFS and non-IFS effectiveness often did not meet expected targets. Well-articulated and structured, market-driven, non-IFS interventions are necessary but not sufficient conditions for creating/supporting access to financial services. Sequencing project activities are key, and they are more often disrupted by non-IFS output implementation challenges, weak project management, and/or unanticipated governance disruption, than by failure to meet IFS outputs expectations.

Integrated, interdependent IFS and non-IFS strategies were more complex, and they often failed to meet outcome objectives. Well-structured relationships between IFS and non-IFS activities were often more effective than the notable number of projects where it was simply assumed that successful non-IFS interventions would automatically lead to beneficiary finance (e.g. subsidized loans leading to commercial loans over several production cycles – LMRDP Sudan). In the case of development projects in Ecuador (Buen Vivir) and Boliva (ACCESSO) multiple community development objectives limited focus on more modest savings and loan activities.

A detailed understanding of beneficiary needs, be it at the smallholder household, farmer group, or community level, form the basis for effective financial inclusion (e.g. incentives to create sustainable CFBOs and for women and youth to save for investing in on and off farm microenterprise such as in PROCANOR Argentina).

Projects with detailed understanding of beneficiaries

- Argentina: PROCANOR

Well-defined value chains, with effective interventions could also lead to greater access in areas where formal financial services were available, though not typically to programme beneficiaries (e.g. SIGHT Jordan; ATMP Kyrgyz).

CBFO-based approaches were more effective when non-IF activities were focused and of high quality. Many CBFO approaches employed in the context of strong-shared social capital were often effective at serving beneficiaries with basic financial services (e.g. *Sanduqs*, SCGs, rotating funds, group equity). CBFO solutions also often leverage significant personal and group empowerment, social capital, and group learning, which can increase appetite for diverse financial services. Examples include linking financial services via producer groups, village improvement/ governance groups, water user groups, common interest groups (e.g. women's unions, youth social groups), self-help groups, or joint liability groups.

18 See annex 3 item 6 for a list of specific variables considered.

Projects using sequencing
- Cambodia: AIMS
- Eswatini: FINCLUDE

The quality of non-IFS activities did not necessarily guarantee demand for, or supply of, sustainable financial services. In approximately half of the relevant programmes, production and enterprise training, capacity building, and business plans did not guarantee access to finance. A sufficiently profitable production or household-appropriate on or off farm enterprise usually does. The interaction of IFS with non-IFS activities is critical here – while finance may be a necessary condition for growth, it is not sufficient. Growth ultimately depends on the profitability of the farmer/entrepreneur and the opportunity presented (e.g. non-IFS interventions). Few household economic activities typically grow beyond micro, and as a result, a slate of financial services access should seek to provide a broad range of micro-products and services as a means to meet household consumption, risk management, production and enterprise needs.

Sequencing IFS and non-IFS activities is critical to both providing an economic basis for beneficiary demand and financial readiness for finances. The need to create supply in harmony with demand is critical. Without ready demand, FSP investments lose value and opportunity costs rise. Common sequencing disruptors include infrastructure delays, unanticipated counterpart actions, programme management weakness and IF component activities challenges. To ensure effective sequencing, it is critical that IFS components are coherently integrated in the programme's theory of change and not seen as a silo within broader programme activities. FINCLUDE in Eswatini is a good example of interweaving inclusive finance with cluster development. AIMS in Cambodia integrated several financial and non-financial interventions including a value chain innovation fund and credit line meant to catalyze private investments in high value-added value chains linked to cluster development, contract farming and matching investment incentives.

SUMMARY CONCLUSIONS

Well-structured, effective non-IFS activities, which are interdependent with IFS activities, enhance beneficiary access to financial services and programme outcomes. Market-driven non-IFS activities grow on/off farm enterprise creating demand for financial products and services. Supply is seldom created in full synchronization with demand, particularly for larger working capital and asset loans.

Use and application of instruments

This component seeks to understand the extent to which appropriate instruments and approaches were deployed and to which good practice application was pursued within the operating and programme context (IFS and non-IFS). It also observes the extent to which desired programmatic outcomes were achieved and scaling and sustainability of beneficiary access was secured.[19]

What we expected to see

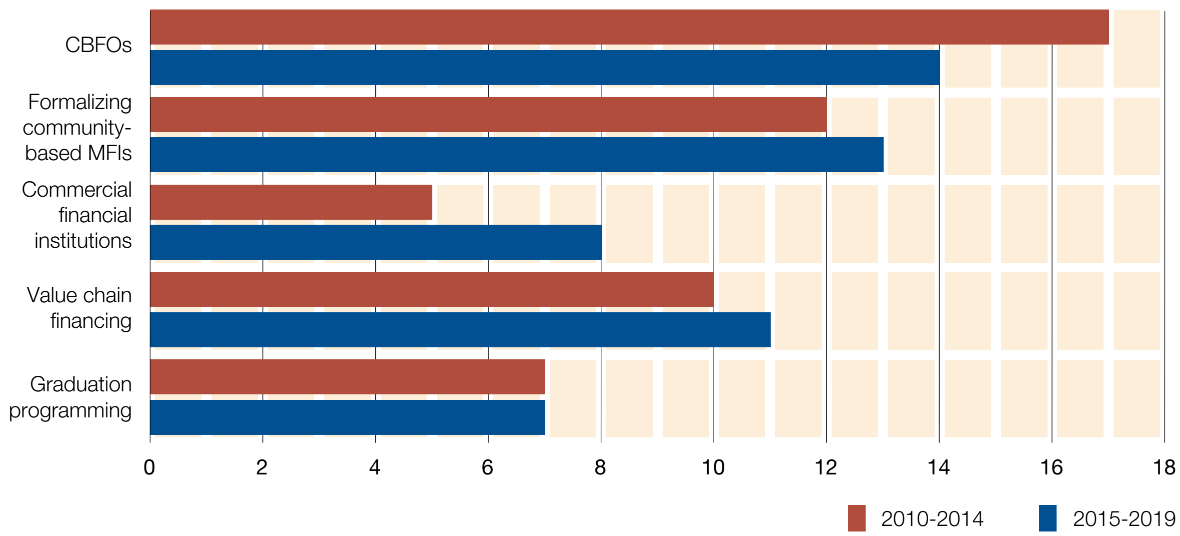
- Application of generally accepted principles of good financial instrument development from both a donor and a financial system perspective (appropriateness, flexibility, scalability).

SUMMARY OBSERVATIONS

A broad range of instruments and approaches were employed in programming, with credit lines, matching grants, technical assistance programmes and guarantee facilities predominating. Others, such as innovation and outreach facilities, were also employed but less often. Instruments and approaches were generally applied in a manner consistent with good practice with consideration given to the operating context and targeted to the market gaps and/or behavioral change sought to be addressed. On the product side, there remains a strong focus on lending products with less innovation in savings, insurance, transfers and other financial services.

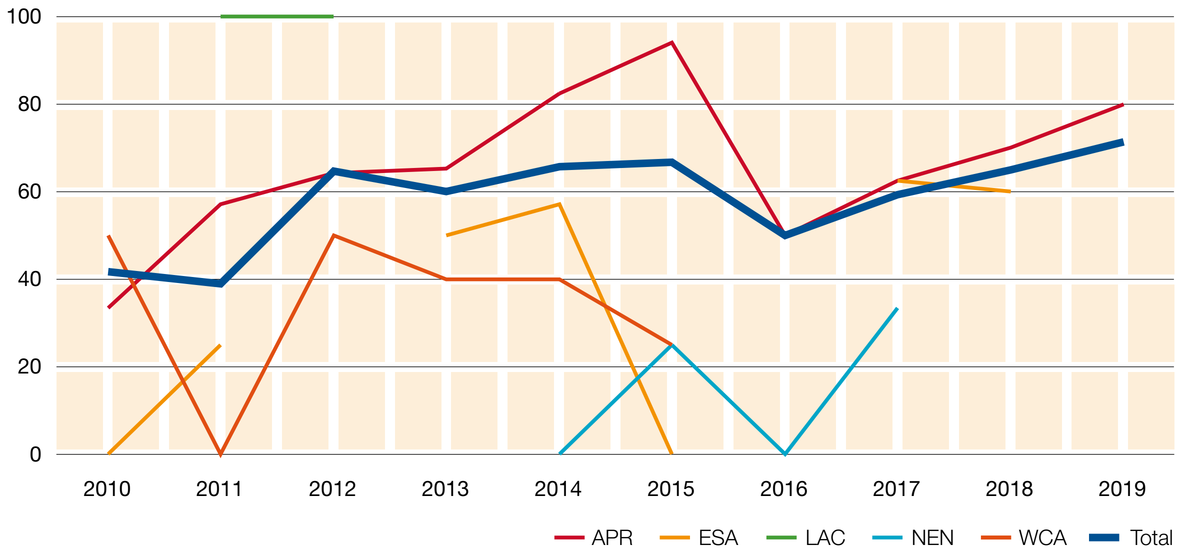
Approaches used in IFAD programming have not changed significantly over the period or across regions (see figures 6 and 7 below). Commonly used approaches over the past decade show there has been a modest shift away from community-based financing organizations with a similar increase in support for commercial financial institutions. The use of graduation programming has been equally spread in both the first and the second halves of the decade.

FIGURE 6. SELECTED IFAD IFS APPROACHES 2010-14 AND 2015-2019



19 See annex 3 item 7 for a list of specific variables considered.

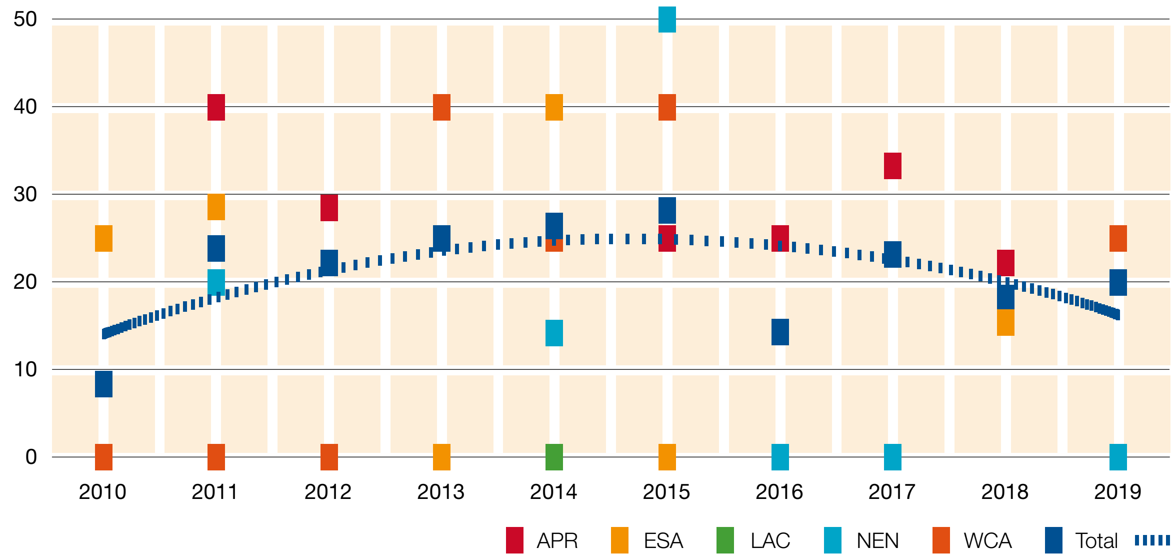
FIGURE 7. PROPORTION OF PRODUCTS SUPPORTED BY IFAD PROGRAMMES CATEGORIZED AS INNOVATIVE



There has been movement towards supporting more innovative products. The proportion of products in IFAD-funded programmes categorized as traditional (e.g. microcredit, agri-SME loans, community banking) fell from 58 per cent in 2010 to just 29 per cent in 2019. At the same time, there was overall growth in the sample share of innovative products, such as digital platforms and mobile money-linked products, micro-insurance, leasing/micro-leasing and remittances/diaspora investments, with notable differences across the regions.

The use of emerging instruments peaked towards the middle of the decade. This lag was possibly due to the need to build capacity and knowledge around the RFP before its principles are fully integrated. DTRF and toolkits (How-To Notes and Lessons Learnt summaries) and technical notes published between 2010 and 2017 definitely helped to enhance corporate knowledge and capacity in rural finance. However, traditional IFAD instruments (e.g. credit lines, matching grants, and credit guarantees) were used more frequently than emerging instruments across all regions (e.g. innovation facilities, equity investments); for example, credit lines were used in 57 per cent of IFS programmes, matching grants or TA to FSPs were also used in 57 per cent and credit guarantee schemes were used in 29 per cent. Most instruments concentrated on the supply side and on increasing financial institutions lending. The ratio of innovative to traditional instruments in newly designed projects varied considerably by region and increased through the first half of the decade, but then decreased from 2016 onwards (the ratio of innovative to traditional instruments over time is shown in figure 8). Overall, there has been an increase in credit guarantees/risk sharing mechanisms and a decrease in matching grants/TA on the demand side.

FIGURE 8. RATIO OF EMERGING VS. TRADITIONAL INSTRUMENTS



Incentives to leverage a change of banking behavior or to fill market gaps generally followed good practice approaches but lead to mixed results. Subsidy incentives were applied across instrument/approach types, but in particular to larger agricultural enterprise loans. The degree to which subsidies were successful in incentivizing FSPs to change behavior and design agri-lending products was limited. More extensive business case assessments were required than typically done in design or implementation. Instruments were weakest when subsidies did not fully account for FSP transaction, management, opportunity, administrative costs and perception of agricultural and rural risk perception.

Lack of compelling business cases constrained effectiveness and sustainability/scalability potential. Offering to pay for product development in the absence of a solid business case seldom had desired results (e.g. ATMP Kyrgyz). More passive approaches such as memorandums of understanding with FSPs to lend with or without programme support (e.g. market studies, or credit risk management training) was less effective than when subsidies were applied (e.g. ACCESOS Bolivia (Plurinational State of)). Projects had some success developing access to loans when they collaborated with state or quasi-state FSPs. In most of these cases, however, access to financial services on a sustainable basis was seldom assured.

Instruments applied in complex programmes usually faced more challenges. In "simpler" projects, where incentives to act were clear and projects provided well-structured and market-driven approaches, financial services were more successful. Loan demand for increasing productivity follows, for example, well-sequenced irrigation infrastructure, or development of local veterinarian services in a tight value chain (e.g. ADMP Uzbekistan).[20]

Projects using simplified methods in complex situation
Uzbekistan: ADMP

[20] "Complexity" is defined as programmes with many different output activities (typically identified by number of sub-components) and/or by the sensitivity of sequencing. Complexity can be created by operating context; however, for the purposes of this stocktaking, contextual complexity is considered in component 1 and 2.

IFAD has taken some steps to harness innovation from the private sector to achieve IFS goals including, for example, the innovation and outreach facilities found in RUFEP in Zambia and FARMSE in Malawi.[21] These instruments follow best practice in leveraging public funds to incentivize innovation and investment from the private sector. However, these funds can be complicated to design, establish and manage, particularly when partners are accustomed to more traditional IFS approaches. In ESA, they appear to have worked more effectively when they are central to the overall programme logic (e.g. FARMSE Malawi, RUFEP Zambia) than when they are one component of many (e.g. PROFIT Kenya, MIVARF United Republic of Tanzania).

Projects using private sector innovation

- Kenya: PROFIT
- Malawi: FARMSE
- Tanzania: MIVARF
- Zambia: RUFEP

While instances of innovative instruments were observed, innovation was not a feature of much programming. There were a few innovative approaches or instruments employed by programmes. There were a few ICT-based innovations in NEN, ESA, APR and LAC, particularly in more recent programming. Where digital tools were used, they were largely demand-led and based on existing penetration of mobile money services. Some interventions supported by IFAD were contextually innovative, such as introducing a new but not particularly innovative product to a market, like microinsurance (PSSA Peru), mezzanine finance (IFRFSP Armenia), the application of the graduation approach (FARMSE Malawi, REGEP Jordan). Other interventions supported the development of innovative products, including micro-leasing (PMR Mali) and a crowdfunding facility to mobilize migrant remittances (INCLUSIF Mali). RMTP in Bangladesh is assessing the potential of peer-to-peer (P2P) lending and equity (Bangladesh Angels) crowdfunding with the support of PKSF, a national foundation with strong financial sector experience. IPDMIP in Indonesia is developing innovative products through its Digital Financial Services component. The application of financial instruments to resolve environmental challenges was largely absent in the sample. However, as GEF funding has become available there have been more attempts to link the two.

Projects using some type of instrument innovation

- Indonesia: IDMIP
- Jordan: REGEP
- Malawi: FARMSE
- Mali: INCLUSIF, PMR
- Peru: PSSA

IFAD has been more cautious than other development funders to embrace digital financial services. While other funders have increasingly emphasized the role of mobile technology, mobile money, digital financial services, and data in reducing transaction costs and increasing product offerings to rural populations, IFAD has been more tentative.[22] IFAD has been building IT project support on other development agencies' investments in financial infrastructure development that is less agriculture and rural sector specific, such as the World Bank, regional development banks, Financial Sector Deepening funds, etc., and the private sector. Even in ESA, where mobile money penetration is relatively high, fewer than half of IFS projects

21 A challenge fund is a competitive financing facility used to disburse public funding for market-based or solutions. The objective is to make the smallest possible contribution to a socially beneficial project such that the private partner is incentivized to commit to the investment. The fund also facilitates programmatic flexibility, as it can receive and respond to proposals more rapidly than a traditional IFAD design.

22 Through the Financing Facility for Remittances (FFR), some 60 projects in 40 countries, IFAD has co-financed rural payment systems together with the private sector (mobile network operators, telecoms, etc.) and pioneered mobile money and remittances innovative solutions.

include any focus on digital. A tentative approach is not necessarily inappropriate – digital infrastructure is often lacking in rural areas and economically marginalized populations can have little or no access to mobile phones, internet, a functioning agent infrastructure, or, as in some regions like LAC, connectivity can be very exclusively expensive. Over-emphasis on digital can also lead to supply-driven programming. The experience of e-Granary[23] in ESA demonstrates the difficulty in developing digital-first approaches and the need for a range of technical, logistical, and administrative expertise to get an innovative project off the ground. Financial sectors are changing in response to advances in digital technology and exponential growth in data, however; and IFAD will need to keep pace with, and ultimately articulate a long-term strategic approach to embrace the digitization of IFS for the rural poor.

Innovation is complex, and IFAD's approach has been to build on its comparative advantages. Different funders approach innovation in different ways, and certain markets that IFAD works in, particularly ESA, are crowded with funders looking to support supply-side innovation in rural finance. Often innovation is seen to overlap significantly with digital finance, but IFAD is right to take a broader view on innovation. IFAD's approach is more incremental and demand-led, building on its scale of outreach in smallholder communities and expertise in community-based finance models, as well as its unique position in understanding how financial systems work in rural economies to support rural livelihoods.

SUMMARY CONCLUSIONS

Programmes have generally applied good practice approach to subsidize initiatives and operational practices; however, few have successfully filled market-gaps and/or changed FSP behavior leading to sustainable or potentially sustainable financial products and services. In those cases where either of these outcomes have occurred, there were identifiable business cases (post hoc and ex ante) supporting the volume and quality of beneficiary demand required for investments.

23 e-Granary is a digital tool supported by IFAD to facilitate product aggregation, provide timely weather and extension advice, digitize and deliver different loan products to farmers and allow for close monitoring of agricultural campaigns.

CAPACITY COMPONENTS

What we expected to see

- Project challenges identified early, reasonable recommendations for change offered in a timely manner, while bringing to bear the capacity, expertise and influence change to the appropriate levels (e.g. PMU, Project Steering Committee (PSC), Ministry in charge).

Capacity of IFAD

This component assesses IFAD human resource and processes capacity to support implementation, supervise and govern programmes.[24]

SUMMARY OBSERVATION

IFAD has generally good programme oversight, identifying challenges in a timely manner as projects advance. However, major project changes typically were done at mid-term regardless of urgency, which often proved too late for meaningful reversal of project effectiveness.

Problem identification and proposed resolutions were clear and appropriate. Challenges to IFS project development often related to IF interventions as they do to other implementation issues. When they were IFS related, IFAD had notable capacity for identifying and providing appropriate resolutions. In numerous cases, particularly where the IFS activities were less critical to project outcomes, IFS outputs were not achieved, not necessarily due to poor IF activity design or management, but more due to the relationship between non-financial and financial objectives not being clear or not being sufficiently linked to garner sufficient PMU attention.

Problem identification was timely, advancing appropriate *Agreed Actions* in supervisory/review documentation; but enforcing compliance with agreements was lacking. Most substantive changes to programme activities were suggested at midterm review despite having identified challenges in earlier supervision or implementation support missions. For some projects, a mid-term course adjustment was too late to maximize desired IFS outcomes. This process issue also affected non-IFS activities to the detriment of IFS goals. Programmes with weak PMUs, or PMUs without IFS specialists (in management or programme steering committees) in the team and substantial financing activities often compounded timing issues (e.g. SIGHT Jordan had no IFS specialist with over 40 per cent of budget in a component related to finance). Non-compliance with *agreed to actions* from supervision missions was not uncommon (e.g. SAIL Egypt, ACCESOS Bolivia (Plurinational State of)). This issue was more pronounced in larger, complex programmes with predominately non-IFS activity, which made prioritization of IFS problem resolution challenging, particularly when IFS was not seen as critical to overall programme outcomes.

24 See annex 3 item 8 for a list of specific variables considered.

Supervision missions in some cases[25] did not include IFS specialists,[26] which limited the ability of IFAD to identify IFS-related challenges and course-correct within broader integrated projects. This lack of expertise also lead to mission drift away from IFS objectives and an under-appreciation of the ongoing importance of IFS within broader project activities.

IFS consultants play a critical role in IFAD IFS capacity for design and supervision. Projects consistently employing experienced IFS consultants were observed to have greater effectiveness, particularly in design.

Loan funded programme knowledge management (KM), generation and dissemination was generally limited. While there was some notable inter-regional IFS knowledge sharing, it was less than ideal; successful and/or challenging approaches did not typically refer to lessons learned from other similar programmes from other regions.[27] (See chapter 5 for more details on KM.)

SUMMARY CONCLUSION

IFAD's human resources and the rigor of processes to support implementation, supervise and govern projects is generally good if uneven. Limitations stem from a lack of appropriate, ongoing supervisory capacity (i.e. between supervision and mid-term reviews), which can be exacerbated by the convention of substantive course corrections waiting until mid-term.

Capacity of implementer

This component assesses government human resource and processes capacity to support project implementation, supervision and governance, including its ability to adapt and change project management, processes and organizational structures as required to effectively meet project outcome objectives.[28]

What we expected to see

- High levels of programmatic oversight involving both public and private sector actors supporting IFS activities and stakeholders.
- Sufficient management capacity and flexibility to effectively implement projects.

SUMMARY OBSERVATION

Within the capacity components, the capacity of implementer was the greatest challenge identified in the project assessment framework by a notable margin. Many issues facing implementer capacity and contribution to effective IFS activity were related to overall programme management challenges. Implementation challenges were fewer where there were more private sector appointees and staff with private sector experience/capacity, while such challenges were greater in cases where management faced multiple layers of government organizations and procedures.

25 Percentage was not tracked but it is worth considering for future supervision missions.

26 The need for expertise must be assumed even when IFS related problems were expected or pre-identified.

27 See annex 3 item 9 for a list of specific variables considered.

28 See annex 3 item 9 for a list of specific variables considered.

Projects with a mix of public, private and beneficiary representation led to better project effectiveness than those with predominantly public sector appointees. Context and institutional expediency often require a predominance of non-private sector stakeholders and state or quasi-state-owned FSPs in project management and implementation often with mixed results (e.g. SAIL in Egypt where the PMU and project governance had no capacity to implement institutional support for provision of innovative financial services which required the contracting of technical support after the project's mid-term report).

Projects with, or access to IFS experience and field support staff saw more focused attention on IFS activities, generally resulting in greater effectiveness. When experienced and dedicated IFS capacity is available, effectiveness is typically greater. This is true of design, supervision and midterm review missions, as it is with PMU staff. Several projects underestimated the capacity to field IFS interventions and added expert staffing was required. Adequately staffed and with appropriate incentives, IFS interventions can withstand substantial challenges. In Syria, for example, ILDP-supported Sanduqs operated throughout the civil war. PKSF in Bangladesh (PACE) is a good example of a successful local implementer as it has a large and experienced IFS and private sector staff, with strong links to the financial sector and regulatory/policy-making authorities

Projects with experienced IFS

- Bangladesh: PKSF
- Syria: ILDP

Dedicated IFS committees were beneficial. Projects with IFS components or sub-components established effective policy dialogue or other topical committees (e.g. investment committee at PMU of YESS Indonesia; PKSF approval committee of PACE Bangladesh; and 4Ps technical evaluation committee of SAP Sri Lanka).

Projects with dedicated IFS committee

- Bangladesh: PACE
- Indonesia: YESS
- Sri Lanka: SAP

Where government bureaucracy was heavy or notably complex, attention to all activities, including IFS, was affected. The effects of government bureaucracy can be a drag on implementation and problem resolution. This effect was compounded in cases where few PMU staff, appointees, and other stakeholders had private sector experience (e.g. PRODEZSA Mexico). In programmes where the context required programmatic flexibility, adherence to government procedure and top-down management could stall remediation response time.

Government management and oversight could be weak. Projects were not uncommonly beset by limited-to-no meaningful/proactive supervision or oversight (e.g. LMRP SUDAN, SAIL Egypt, REGEP Jordan). Lack of staffing and/or clear delegation of responsibility for FSP outreach limited project IFS success (e.g. PROFAMI Paraguay, ACCESOS Bolivia (Plurinational State of), SIGHT Jordan). Attracting PMU staff with financial experience was challenging, as was high turnover for financial positions.[29] Weak M&E systems predominated in projects with the majority of systems being developed either later than planned, having notable data collection challenges, and ineffective reporting capacity. Inadequate M&E systems were often compounded by weak Project Steering Committees (PSC), which had little to no finance and/or private sector experience and/or met too infrequently to be functionally effective.

Monitoring and evaluation (M&E) systems were effective in places but often too rigid to capture wider changes in the market. Approaches to M&E relied heavily on quantitative indicators that have the advantage of being easy to track and to aggregate, but which can often miss the nuances of systems change and lead to narrow definitions of success/failure. IFS indicators tended to focus on simple metrics like number of new loans, rather than outcomes that link IFS to wellbeing. There was also very little evidence of feedback from M&E systems into implementation arrangements, a key feature of adaptive programming.

Knowledge management, generation and dissemination was generally limited. Some efforts have been made on IFS KM. In PACE Bangladesh where PKSF has a strong communications and knowledge management team, project activities were communicated through multiple sources including blogs, written publications on models/studies, videos, social media and YouTube. A model mentorship programme was designed enlisting support of women professionals in IPDMIP Indonesia. There has been little notable inter-programme KM and sharing (e.g. South-South triangulation). (See chapter 5 for more information on KM.)

SUMMARY CONCLUSION

IFS activities require a balance of public and private sector-minded support, supervision, and oversight. Public sector stakeholder participation often outweighed that of the private sector by notable margins with an evident association with less effective programme interventions. A more balanced approach, with strong IF/private sector experience available is warranted, either on the PMU or via consultants with a focus on practice project output oversight.

29 There were several cases where turnover of rural finance experts was attributed to staff, once experienced, leaving for higher pay in the private sector.

What we expected to see

- Notable IFS and non-IFS contributions to programmatic outcomes alone and combined, as well as assessments of project IFS cost effectiveness.

Project outcomes

This component examined IFS activity outcomes[30] to assess whether they substantially align with and support non-financial outcomes. It also takes notice of whether IF activities are broadly cost-effective[31] given desired outcomes.[32]

SUMMARY OBSERVATION

IFS was central to supporting non-IFS outcomes[33] in several value chain and small enterprise interventions, though there were a small number of programmes overall with notably interdependent outcomes. Even fewer programmes explicitly assessed the synergy and resulting combined effectiveness of IFS and non-IFS outcomes.

IFS contribution to mixed programmes was seldom assessed, even though IFS interventions were instrumental to achieving outcomes in some projects.

Projects with complementary IFS and non-IFS components

- Sudan: LMRP

The link between IFS and non-IFS and their complementarities/ interdependencies were clearly articulated in a small number of projects (e.g. LMRP Sudan cattle fattening cycles). In most, however, design and/or reporting did not define the interdependence of contributions and related outcomes (e.g. the combined effect of grants provided assets and IFS interventions working capital).

More and better data to quantify costs and benefits would help to benchmark projects. Without rigorous data to make the full case for IFS intervention, it is difficult to present and defend cost-benefit tradeoffs for employing any single IFS approach over another.[34] Simple data, such as gross cost of project or component divided by beneficiaries served is useful to a point. Measures of the costs to develop CBFOs provide the most readily available benchmarking data (i.e. cost per group/ member formed). This type of data is helpful, but extending cost benefit analysis of outputs to outcomes would provide a more precise basis for intervention selection (assuming comparative intervention type data is available).

Graduation programming has been shown to be effective, but it is relatively expensive. Given its expertise in grassroots rural finance models, IFAD is well-positioned to use and develop graduation programming, particularly for targeting the ultra-poor who are unlikely to be adequately served by market-based mechanisms. However, the combination of consumption support, mandatory savings, asset transfer, skills training and regular monitoring is relatively expensive. For example, under the graduation component of FARMSE Malawi, US$15.8 million was budgeted supporting

30 The stocktaking is only to discuss outcomes insofar as they align with IFAD objectives. Achievement of IFS/non-IFS outcomes were considered, as opposed to previous analysis of how IFS/non-IFS activities were integrated into programming.

31 IFS intervention cost effective analysis was limited due to resource constraints.

32 See annex 3 item 10 for a list of specific variables considered.

33 Such as agricultural productivity, farm profits, investment and climate resilience.

34 Detailed cost-benefit analyses can be part of a business case approach, but they can be problematic as an approach as one relies heavily on assumptions, and they require quantifying the economic value of benefits when the impact may be more dispersed and intangible (e.g. improved female empowerment within household decision making).

15,000 beneficiaries, or more than US$1,000 per person; this cost represents a reduction relative to the six graduation pilots analysed in IFAD's Graduation Models for Rural Financial Inclusion (2017)[35] in which costs per beneficiary ranged from US$1,250 to US$5,000. However, it should also be compared to a simple SCG approach, which can average US$200 per person or less. The costs of graduation programming are often inflated by the hiring of relatively expensive international NGOs which could be reduced by utilizing local resources where possible.

Programme M&E and reporting seldom provided IFS activity cost-to-benefit assessments. There was some reporting on CBFO cost per beneficiary and some costing of financial product development, but overall, reporting was neither frequent nor often effectively useful for programme design or business case modeling. Poor measurement and reporting reduce operational effectiveness, and it limits data/information for lessons learned and future programming design.

SUMMARY CONCLUSION

Better recognition and measurement of the interdependence of IFS and non-IFS activities is required to understand their combined output contribution to outcomes and impact. Rigorous measurement of "benchmarkable" cost benefit outcome data for IFS approaches would provide useful "comparables" and greater confidence in approach selection.

35 https://www.ifad.org/documents/38714170/39317987/Research+Series+Issue+13+-+13+-+Graduation+models+for+rural+financial+inclusion.pdf/19064761-7c5a-4010-9144-3d2ff459d802?eloutlink=imf2ifad

4 REGIONAL TRENDS

This section provides a summary by region, and it highlights the major distinguishing characteristics of the stock-take in each. It shows that the opportunities, challenges and strategic opportunities are quite region-specific, while the overall findings are well embedded in the global findings and analysis. This is preceded by an overview of IFS trends at the global level as a means to provide a broader context for regional analysis.

GLOBAL REVIEW

Inclusive rural financial services are a priority for a wide range of multilateral and bilateral donors as well as development finance institutions (DFIs) and philanthropic foundations. The sector is constantly evolving, and there are some notable trends emerging:

- Programmatic integration and finance as an enabler. The direction of IFS programming is moving from standalone financial inclusion programming towards programming that integrates financial inclusion with other areas of the economy. This movement is based on an emerging theory of change in financial inclusion that treats finance as one of several outcomes that enablers, people and businesses strive to achieve, be it in agriculture, enterprise, education, health, water, sanitation and hygiene, or any other area of development.
- Holistic approaches to smallholder finance. Donors are moving away from approaches that support agri-lending in isolation and are increasingly moving toward rural financial inclusion as one part of a broader approach to rural development. This change often means appreciating the range of pathways supporting poverty reduction in rural communities and an array of non-credit

financial services and linkages to markets, extension, all of which interconnect to improve rural livelihoods.

- Catalytic approaches can crowd in private investment. The estimated US$3.3-4.5 trillion per year[36] required to achieve the SDGs globally cannot be provided by the development sector alone, and this fact has given rise to new approaches to leverage private capital flows into rural finance. New blended finance instruments and structures are being created that use donor capital to de-risk private investment. Results-based financing mechanisms like social impact bonds allow development funders to improve incentive mechanisms to attract private capital. Challenge funds, such as the Mastercard Foundation's Fund for Rural Prosperity, have been useful at incentivizing financial institutions to invest in new products and channels to reach farmers.
- Digital technology and data. Technological progress, and particularly the expansion of mobile phones to rural areas, has significantly reduced transactions costs for financial institutions in accessing and serving rural customers. Looking to advance the growth of digital in rural finance, donors have sought to support both traditional FSPs as they improve operational efficiencies and build new digital business models, and to energize an array of new players, often with higher levels of innovation and operational nimbleness to solve specific challenges in the ag-finance value chain. Digital technologies have also opened up new data streams, from value chain data to satellite imaging, to reduce information asymmetries in agri-lending.

REGIONAL REVIEW OF SAMPLE PROJECTS

Global IFS trends affect each programme in varying degree across regions and within regions themselves. In addition, while there are many IFS programming commonalities regionally, there are notable differences as well, as programme designs are matched to particular national contexts. The nature and development of a country's IFS sector is among the most important factor in shaping programme design. Even in countries with mature IFS sectors, there can be substantial differences between urban areas, which can be well served, and rural areas that are not. This is not surprising as the sector has yet to fully leverage the potential of ICT innovation, and because digital finance regulatory issues remain to be addressed in many countries.

Unique national operating contexts can also affect project design and implementation. From fragile states in NEN, to political and social unrest in WCA, to the legacy of socialist governments in ESA. Environmental conditions are also increasingly affecting programming. Water, too much at once or too little for too long, as well as saline intrusion is increasingly affecting smallholder opportunity in many countries. Soil degradation, deforestation and other symptoms of intense land use pressures also define opportunities and challenges for IFS and non-IFS interventions.

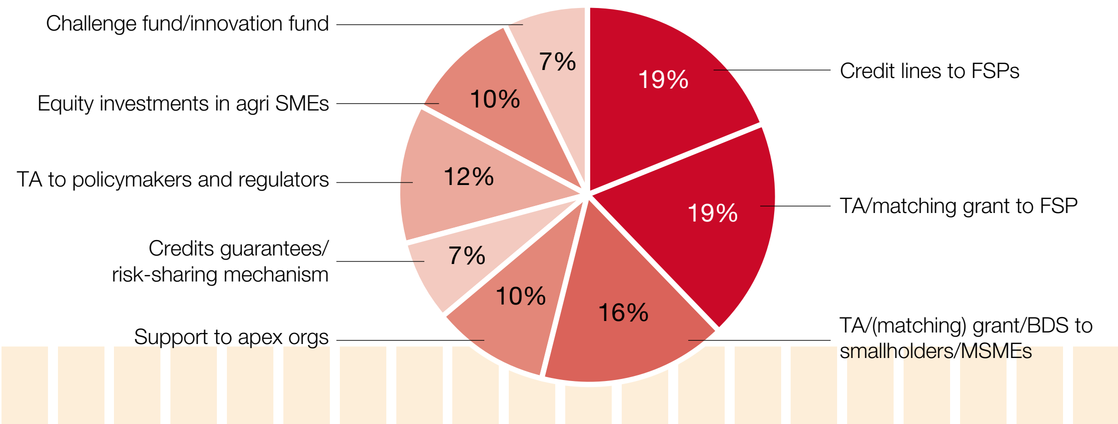
36 UNCTAD (2014) estimated that from 2015 to 2030, between US$3.3 trillion – US$4.5 trillion per year would be needed in developing countries to achieve the SDGs, mainly for basic infrastructure, food security, climate change mitigation and adaptation, health and education.

Asia and the Pacific

The programmes implemented in APR had carried out a wide spectrum of financial and non-financial activities in the rural areas under the farm and non-farm sectors, each containing IFS component/sub-component significantly influencing planned outcomes. Besides traditional instruments, approaches and products, there were a host of new and emerging ones, which included financing value chain/agri-business through 4P model, harnessing migrants' remittances, micro leasing, securitization of assets, index insurance, community-based climate change adaptation investments, etc.

With the increasing move towards private sector participation, several programmes have taken different approaches to implementing 3P financing. These include market-driven, private sector-led approach in SAP in Sri Lanka, 3P business Plan in SSHADP China and private sector facilitating farmers' exports to Japan in PACE in Bangladesh.

FIGURE 9. USE OF INSTRUMENTS IN APR



There were some good examples in the region of targeting specific groups and thematic areas through IFS. These include programmes on climate changes such as Project for Adaptation to Climate Change in Viet Nam, which sought to leverage private capital for climate change adaptation; ILSP in India, which supports driven non-timber product financing to widen the natural resource management; youth entrepreneurship and employment support such as YESS in Indonesia, providing incentives and special support including bridge finance; and food and nutritional security programme such as FNSL in Laos, strengthening and enabling environment for nutrition sensitive agri-services including climate change adaptation.

YESS in Indonesia, PACE in Bangladesh, RERP in Nepal, RAPID in the Philippines and RMTP in Bangladesh have helped to funnel migrants' savings and remittances into productive enterprise. The programmes have a variety of approaches in addition to migrant remittances, savings and investment. These include financial education, peer counseling, employment, a resource centre, policy dialogue and a development plan.

A host of special/strategic funds have been designed, encouraging innovation, focused resource deployment, and boosting target beneficiaries' participation. These include, the Value Chain Funds (AIMS Cambodia), Women Social Fund (CCAMD Viet Nam), Competitive Grant Fund (FARM Myanmar) and Financial Inclusion Fund (LAMPs India). Programme interventions backed with government-led rural development policy and programmes have led to the promotion and formation of a large number of grass root-level groups/collectives and eventually led to their linkage and participation in IFS.

Some of the programmes pursued policy and regulatory reforms through the funding activities at various levels. Policy dialogues was also a focus of several programmes, including RMLS in Afghanistan; Samrudhi in Nepal; RAPID in the Philippines; YESS in Indonesia; PACE in Bangladesh; and SAP in Sri Lanka.

IFS opportunities, challenges and strategic opportunities

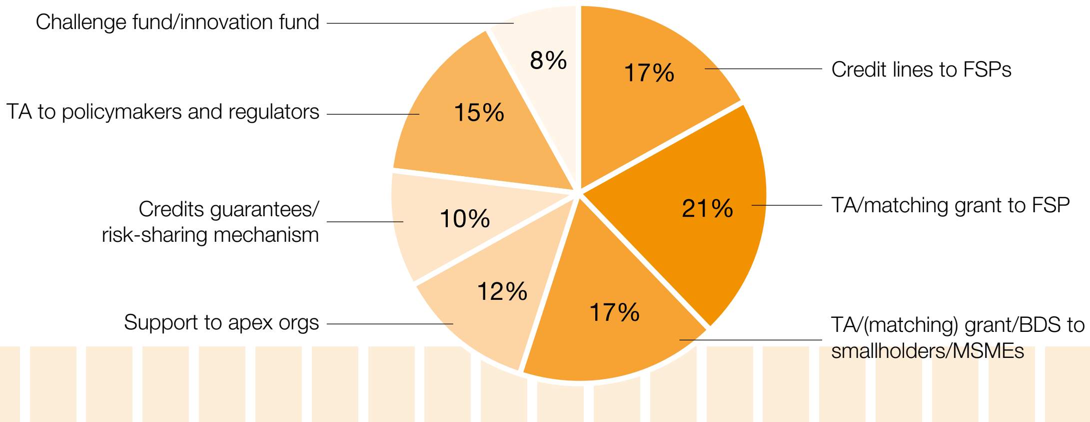
There are three notable and linked IFS opportunities in the APR. The first relates to sustainable value chain technology development, which is growing through private sector investments. The second relates to the digitization of financial services by both formal and informal sectors. As the region's economies mature, banks in the region are converging with global standards, and thus, data-driven, customer-centric digital banks are emerging. Considerable scope exists for faster, efficient and cost-effective financial services linked to market-based value chain development. Both these opportunities link to the potential to scale smallholder participation as they drive transaction costs down while reducing both finance and business information asymmetries. Linking CFBO and other non-finance grass root activities (e.g. social groups, cultural activities, technical production groups, business associations) to these emerging opportunities provide substantial scaling potential (e.g. Peer-to-Peer Crowd funding platforms).

Projects in the region need to ensure principles of responsible lending and investing as Social Performance Management (SPM) and codes of fair practices are complied with. As IFS in the region become more digital, data integrity and privacy also need to be ensured. Greater donor coordination will attract more funding and enhance potential programmatic outcomes.

East and Southern Africa

The ESA region has seen some of the most innovative and effective IFS programming over the past decade. Success has been achieved through a range of approaches specific to the country contexts – scaling of microfinance models (RUFIP II Ethiopia and SACCOs in PROFIRA Uganda), leveraging private sector innovation (RUFEP Zambia and FARMSE Malawi) and implementation of the graduation approach (FARMSE Malawi and PROFIT Kenya).

FIGURE 10. USE OF INSTRUMENTS IN ESA



Programmes in the region have largely been designed with within the framework of market systems. This is particularly true for more recent programmes like FINCLUDE in Eswatini and FARMSE in Malawi. Other projects have good focus on the micro and macro but are lacking analysis on constraints at the meso level (PAIFAR-B Burundi). While more innovative instruments are being used, there remains some reliance on credit lines, matching grants and credit guarantees.

IFS opportunities, challenges and strategic opportunities

Given more advanced general levels of financial inclusion and technology adoption in ESA as well as more conducive policy and regulatory ecosystems, there are opportunities to further develop IFAD's portfolio of more innovative instruments. The learnings from the successful implementation of innovation and outreach facilities (IOFs) in Malawi and Zambia can be carried forward and used as a template for better engaging the private sector in other markets. Similarly, the difficulties with IOFs in Kenya and United Republic of Tanzania as well as the implementation challenges of e-Granary should also provide learnings for how to improve the implementation of similar facilities.

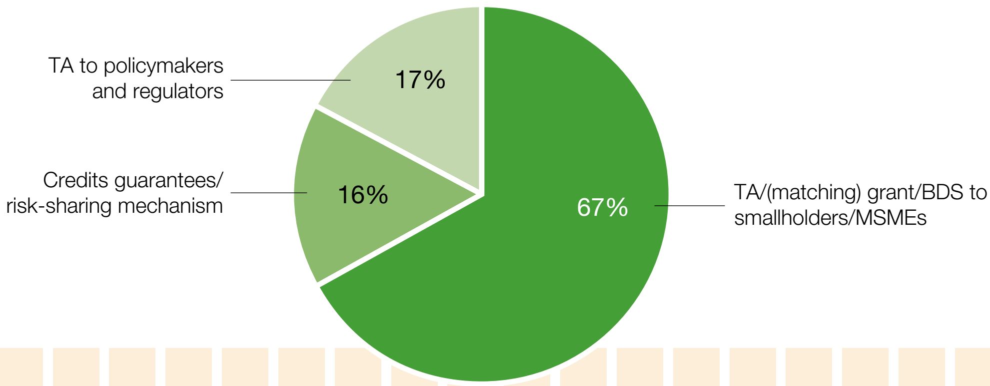
The penetration of mobile phones and effective mobile money networks into rural areas provides a platform for IFS expansion that IFAD has yet to fully leverage. Opportunities will continue to grow in number rapidly as more people are brought into the digital ecosystem and new data channels open and facilitate improved risk management and product design. As IFAD looks ahead to the increased digitization of financial services worldwide, ESA may be seen as a testing ground for new approaches.

IFAD has used the graduation approach to target the extremely poor in four programmes in ESA (PROFIT Kenya, PAIFAR-B Burundi, FARMSE Malawi, and REFP Mozambique). Overall, graduation has been shown to be an effective approach, one that demonstrates the potential to be scaled up elsewhere. However, it is expensive, often greater than US$1,000 per beneficiary. As IFAD now has experience with the approach across a range of contexts, accumulated lessons learned can be applied for more cost-effectiveness, particularly through leveraging local infrastructure and NGOs over more expensive international expertise.

Latin America and the Caribbean[37]

The IFS sector in many LAC region countries have seen substantial growth in the decade prior to the RFP's articulation; and in many, the sector was relatively well-regulated and enjoyed advanced financial infrastructure as well as substantial sustainable supply. Government support for IFS, once significant, has decreased as supply developed, and soft asset programme investment (e.g. TA, capacity building) is deemed only necessary in special circumstances (e.g. supporting the advance of specific policy goals such as a particular SDG goal).

FIGURE 11. USE OF INSTRUMENTS IN LAC



At the same time, many rural areas, particularly the most sparsely inhabited, those populated by large indigenous communities and/or those with a disproportionate number of very poor households, lack access to financial services and/or the capacity/ knowledge for households to fully participate in the financial system.

This deficit is particularly true of indigenous communities where IFAD has designed territorial development projects with financial sector activities. Three of these projects had savings incentives programmes (ACCESOS Bolivia (Plurinational State of), PSSA Peru, PROFAMI Paraguay), the first two with financial literacy support. These projects focused on supporting women and youth with economic activities – often farm-related micro enterprise – to help smooth household incomes and/or to encourage savings for household and enterprise investments. Two of these projects support access to basic microinsurance as a means to protect built up assets (PSSA Peru, PROCANOR Argentina).

37 Caribbean countries were not represented in sample due to lack of documentation.

The relatively complex and developed IFS sectors in LAC often led programming to not directly support FSPs. Instead, linkages with varying degrees of formality were agreed to with FSPs and were made with the expectation that non-financial interventions would prepare beneficiaries for improved access to financial services, credit in particular. By contrast, PROLENCA in Honduras helped some 300 small cooperative financial organizations expand outreach of basic credit and savings services through the capitalization of organizational revolving funds. With the support of a grant, the cooperatives will increase productivity by digitizing financial reporting.

The growing complexity of value chain development in middle-income LAC countries and corresponding financial service needs, however, requires improved smallholder access to a range of services from equity building to working capital finance. Programmes often used matching grants and TA to leverage access, and other combinations of financial tools. PROCANOR in Argentina supported locally-managed rotating funds, grants for equity and savings incentives for beneficiaries participating in value chain development.

IFS opportunities, challenges and strategic opportunities

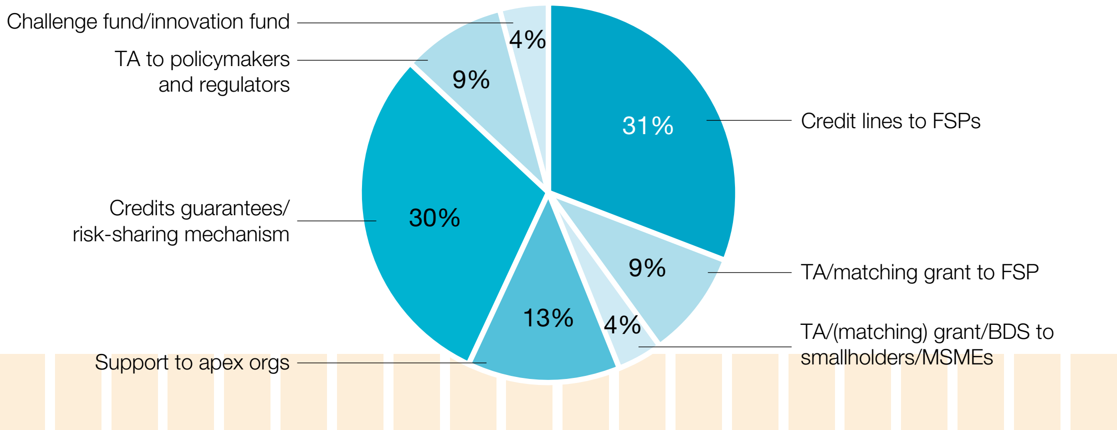
Stubborn pockets of rural poverty, often related to challenging economic and social barriers, constrain full access to and use of financial services despite their relative availability. Extending basic financial services to isolated and underserved communities while improving financial literacy in severely underserved populations represents a clear opportunity, particularly in areas with large indigenous populations. Advancing emerging regional digital financial solutions in tandem with the growing use of digital agriculture, as well as learning from other regions, particularly ESA, is an opportunity as more rural people are brought into the digital ecosystem (mobile network/internet cost issues notwithstanding). The PROLENCA experience could be expanded to other countries with numerous small cooperatives or banks in the financial system (e.g. Peru, Guatemala and El Salvador).

At the other end of the spectrum, there is an increasing number of value chain development opportunities from which smallholders can benefit if they have access to a greater range of financial services. Matching specific financing tools to value chain interventions (e.g. equity levering grants or funding), particularly for growing small enterprise (individual or group) both on and off farm *in association* with support to other household initiatives such as service sector enterprises, food processing, etc. is well suited to the relatively well developed LAC economic and financial sector context. Matching grants or challenge funds (as a form of equity) and direct equity funding via a specialty fund (non programme) for growing on and off farm beneficiary enterprise, particularly those in programme targeted value chains, represents a substantial opportunity when linked to support to smallholder producers and producer groups. A key value chain finance approach would be the challenge of ensuring the poor are direct beneficiaries of any intervention.

Near East, North Africa, Europe and Central Asia

IFS trends, challenges and strategic opportunities in the NEN region are stark given the spectrum of highly advanced and very fragile economies. There are, nonetheless, two observable themes running through the sample portfolio.

FIGURE 12. USE OF INSTRUMENTS IN NEN



The first is continued use of CBFOs and a more recent emergence of graduation programmes, particularly in countries with fragile operating contexts. In Jordan and Syria, these approaches are employed in communities of common interests as a means to provide savings and small loans for on/off farm investments and consumption/income smoothing purposes. CBFOs are also used in Sudan as a complement to other financial tools set in a programming context of extensive value chain development. As with other regions, CBFOs are often used to target the needs of women and youth; and, in the case of IRECR in Moldova, they are used to supplement other, usually larger sources of financing and/or production TA.

The second theme is the need for larger farm/enterprise loans (asset and working capital), primarily, but not exclusively, in Europe and Central Asia. A range of guarantee instruments have been used to address insufficient collateral, some involving state guarantee funds and, more recently, specially designed guarantee mechanisms. These mechanisms are found in combination with attempts to improve smallholder and value chain enterprise access to agricultural loans from commercial financial banks. Support to incentivize commercial loan access through lines of credit to FSPs has decreased over time as use of guarantee mechanisms has increased, and, to a lesser extent, support for FSP agricultural loan product development.

IFS opportunities, challenges and strategic opportunities

Ever more fragile operating contexts (social, political and environmental) are likely to be the norm in many NEN countries. The use of the graduation approach will remain important as a result, and it represents an opportunity for not only financial and economic capital development, but substantial community and social capital as well. When linked with CBFOs, graduation is a potentially powerful tool, and while relatively more costly, the overall social and economic impacts of such a tool can be impressive. There is an opportunity to take this model further through linkages to the formal financial system, to value chain projects and to other finance tools (e.g. insurance, savings).

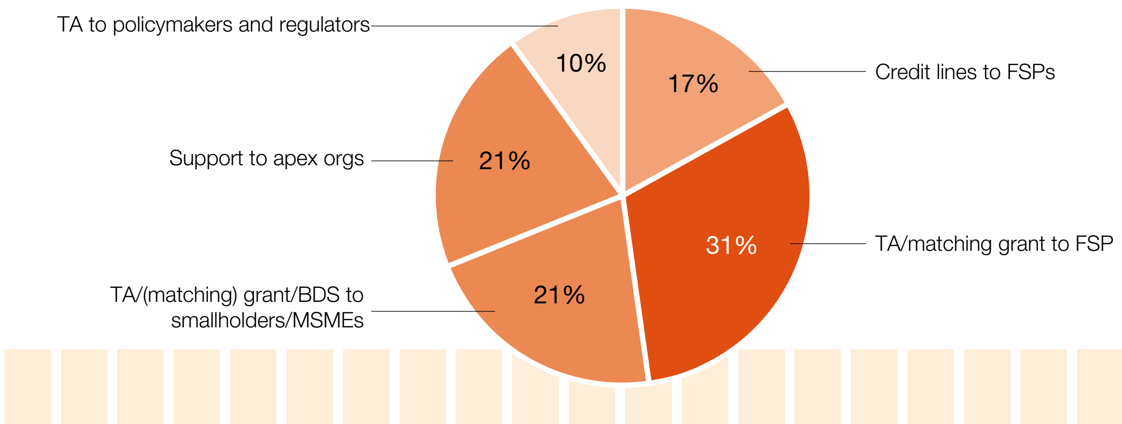
Access to larger agricultural/rural loans remains a significant challenge in all parts of NEN. Large loans are vital for advancing smallholder production, productivity and value addition enhancements in these more developed rural economies with bigger smallholding farms. The approach taken in URDP in Turkey, for example, where upland farmers have the opportunity to become product branded (either as individuals or in groups) represents a substantial opportunity, with notable potential local multiplier effects. In this context, finance can help contribute to vibrant local economies, encourage talent retention and create enterprise opportunities for small processors, retailers and exporters (intra-national and international).

While there are no notable substantial digital solutions in the NEN sample portfolio, financial sectors in many of the region's countries are highly advanced with leading innovation taking place (e.g. digital banking, some large agri-value chain advances). The relative sophistication and depth of financial sectors, along with strong ICT sectors, makes digital financial services a distinctive opportunity.

West and Central Africa

The WCA portfolio retains a strong focus on community-based financial services and microcredit. The level of innovation, in terms of instruments, approaches and products, is low, particularly in comparison with ESA.

FIGURE 13. USE OF INSTRUMENTS IN WCA



IF programming in WCA has had to respond to a number of exogenous challenges over the past decade, including the Ebola crisis in Sierra Leone (RFCIP II) and Liberia (RCFP) and political crises in Mali (PMR). Broadly, the programmes have responded well to these challenges. This resiliency appears to be in part a function of a consistent commitment to demand-led and community-based approaches, which allow for flexible responses to changing contextual conditions and an understanding of how change impacts rural populations. Projects in the region also tend to be part of broader approaches with a range of partnerships that allow for greater flexibility in programming. Projects failed where IFS components were not well-integrated or partnerships were poorly built and managed (e.g. GASIP Ghana).

Projects in Mali (PMR, FIER and INCLUSIF) have performed particularly well, with a strong focus on demand-led design, good appreciation of the country context and alignment with the Rural Finance Policy. IFAD's long history with IF programming in Mali means that programmes are designed with a solid analysis of the various challenges (e.g. agricultural, financial, political and climate-related), opportunities and deep networks of trusted partners. This foundation has allowed for more innovation in recent programming, with INCLUSIF taking a progressive approach to introduce new products to the market (e.g. micro-leasing, green finance and a crowdfunding platform to mobilise migrant remittances for productive investments).

IFS opportunities, challenges and strategic opportunities

IFAD has an opportunity to build on its foundations of community-based financing models and grass roots finance across WCA. IFAD has a comparative advantage in this space and a strong platform built up over decades in which more demand-driven innovation can be layered. This process is likely to be incremental as lessons are learned and applied. Care must be taken to ensure that CBFOs remain institutionally sustainable.

The role of IFS in responding to climate change and green finance are also opportunities for IFAD. WCA holds the largest environmental and climate change grant portfolio in IFAD, and the role of IFS in this issue, as well as other environmental issues like land degradation, can be explored. Given that the IFS portfolio is already well integrated into other value chain and rural development approaches, there is an opportunity to explore the intersectionality of IFS, rural development and climate change.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5 GRANTS, KNOWLEDGE MANAGEMENT AND NETWORKING

IFAD non-lending activities have an equally important role and impact on advancing IFAD's lending programme and global agenda in the area of IFS.[38] Grants support, inter alia, knowledge generation, innovation and finance activities within programmes that governments are unwilling to fund with loans. Knowledge generation and networking are critical tools for ongoing capacity development supporting greater design quality and implementation effectiveness.

SUMMARY OBSERVATION

Grants, KM and networking activities have played important roles advancing IFAD's IFS efforts, directly and indirectly supporting loan programmes and advancing IFS knowledge generation and coordination with key global and regional organizations.

GRANTS

Since 2010, IFAD has approved over 50 grants to support IFS activities. The grand total of IFS grants used by IFAD is US$44.9 million, and the current outstanding global (CABFIN and CGAP) and regional (APR, LAC and WCA) grant funded projects is US$6.0 million.

38 Policy development is another key non-lending activity. IFS policy development is assessed in chapter 3.

Grants have played both a strategic and a tactical role in IFAD's global IFS efforts. Strategically, grants have supported IFAD's goal of advancing an understanding of both the nature and the applicability of IFS approaches, instruments and products/services. They have helped IFAD engage with leading global and regional IFS thought and networking organizations, supporting the intermediation of knowledge from and testing of interventions in the field.

The stocktake broadly supports the findings of the Evaluation Synthesis Report: that global grants were used effectively for knowledge partnerships and that the choice of topics was highly relevant; that regional grants facilitated cross-country learning and innovation transfer, but linkages with country programmes were limited; and that country-specific grants were in some cases used tactically to address challenges of weak performance by partner institutions.

IFAD's portfolio of IFS grants can be broadly broken down into three categories: strategic global grants; global and regional knowledge management, learning and innovation grants; and country-specific grants in support project activities.

Strategic global grants

The first set of grants are to international organizations and partnerships focused on knowledge management, thought leadership and strategic partnerships. In line with the IFAD Policy for Grant Financing, these are strategic grants in that they position IFAD within the global rural IFS community. Through funding and/or proactive membership, IFAD has helped to advance the shared goals of leading IFS organizations such as the Consultative Group to Assist the Poor (CGAP), a global partnership of 30 plus development organizations advancing the lives of poor people through financial inclusion. Other global initiatives supported by IFAD include the European Microfinance Platform (e-MFP) and the MIX of the Center for Financial Inclusion (an IFS institutional performance data and research supplier). The impact of the grants on innovation, quality of loan funded project interventions etc. are covered in more detail in the ESR.

Global and regional knowledge management, learning and innovation grants

The objective of these grants is to promote cross-country learning, capacity building, knowledge transfer and innovation. They are intended to share best practices and peer learning, and to ensure that IFAD programmes are able to fully leverage the large amounts of formal and informal knowledge generated by IFAD and its network of close partnerships.[39]

Along with FAO, GIZ/BMZ, UNCDF, WFP and the World Bank, IFAD has supported "Improving Capacity Building in Rural Finance" (CABFIN) which facilitates knowledge dissemination and capacity development for public and private stakeholders working to increase rural IFS. CABFIN, in turn, created the Rural Finance and Investment Learning Centre (RFILC), which disseminates IFS research and capacity development material. IFAD also supports regional initiatives and organizations including, PAMIGA, Fundación Capital, AFRACA (ESA), APRACA (APR), CCA-ILCUF (ESA) and Grow Asia (APR).

39 The IOE Evaluation Synthesis covered the performance of global IFS grants, what has worked well, what has not worked well. The stocktaking is on how grants were being used to support project activities. Grant funded projects by the special facilities were not specifically a subject of the stocktaking.

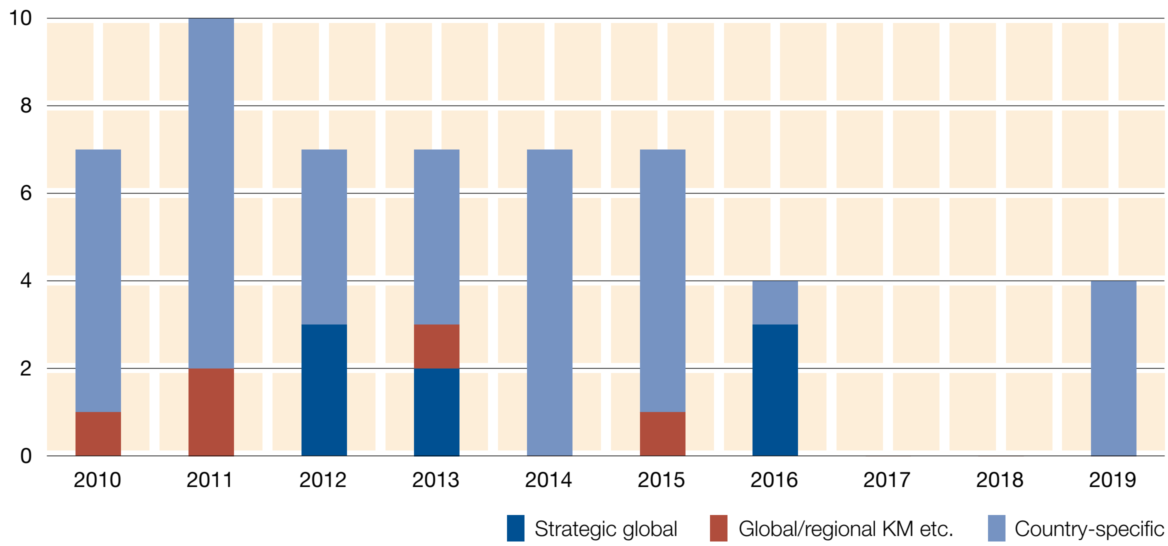
Some grants focus on specific themes, generating evidence that have potential to scale IFS programming – as per the Rural Finance Decision Tools, the objective of grant funding in this case is to spark innovation and pilot new approaches that can later be expanded in the sector. This effort includes projects like Project to Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries.

Other grants were employed in parallel to programme activities with complementary outcomes, often supporting innovation in particular financial sector verticals. Such is the case with Financing Facility for Remittances (FFR), a grant-making facility hosted by IFAD that provides funding for remittance projects in underserved rural areas. Some FFR grants are tied to IFAD regional programmes while others provide important remittances knowledge creation. Similarly, Platform for Agricultural Risk Management (PARM) is a G20 initiative providing a structured risk management approach and technical assistance in agriculture for national governments. From PARM grew Insurance for Rural Resilience and Economic Development (INSURED) and managing risks for rural development.

Country-specific grants in support of project activities

Country-specific grants were the dominant type of grant employed by IFAD over the past decade, with their usage considerably more prominent in the first half of the decade than in the latter half. In line with the IFAD Policy for Grant Financing, country-specific grants have mostly been used in two ways: i) to strengthen institutional, implementation and policy capacities, particularly in fragile contexts; and ii) to support innovation in key thematic areas and to pilot approaches and methodologies that can subsequently be scaled up through IFAD's country programmes.

FIGURE 14. TYPES OF GRANT USED BY IFAD ACROSS THE DECADE



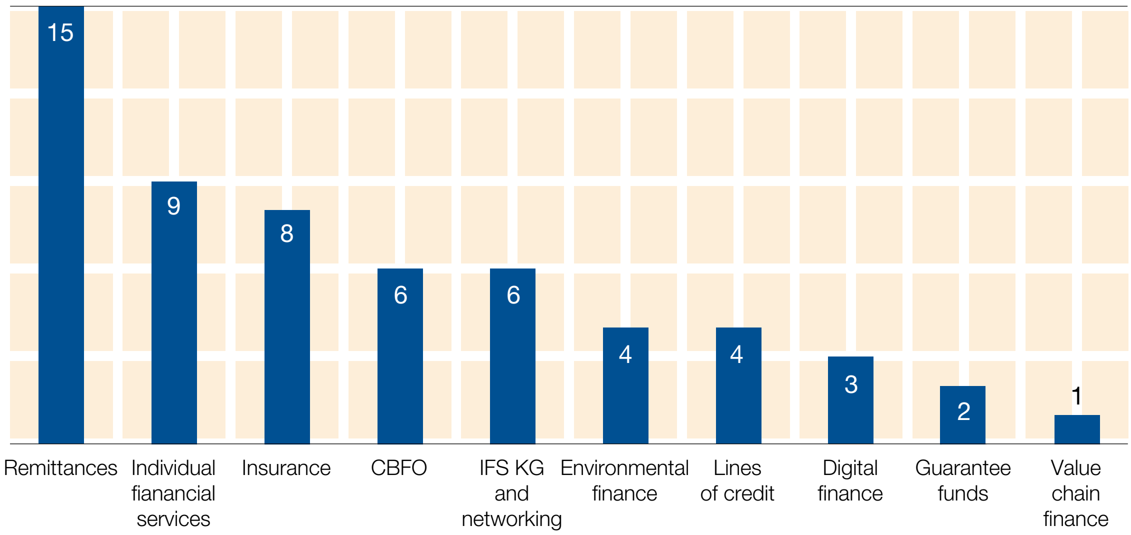
Projects have routinely used grants to support IFS activities, such as in Uganda and Sierra Leone, where PROFIRA and RFCIP2 both used grants to build a national CFBO apex institutions. In the case of Uganda – and in many other instances – a grant was employed to support activities where the government preferred not to use loan funding (e.g. international consultants contracted to build the apex, soft asset capacity development such as business development training).

The FFR can also employ their grant-driven programming to directly help loan programmes, as is the case in the RRP in Moldova where they work with CFBOs to develop remittance services in unserved rural areas, or in Kazakhstan through financing for a Study of Remittances and Postal Financial Services in Kazakhstan.

KNOWLEDGE GENERATION

Knowledge generation and dissemination (KM) activities (many funded by grants) have played a vital role in a continuous feedback loop of assessing and sharing experiences and innovation advancing IFS effectiveness (see figure 15. IFAD – IFS knowledge generation products). Evidence-based research, implementation, monitoring and evaluation are key elements of KM, as are partnerships and networking. Since 2010 there have been 150 publications generated within IFAD with notable rural IFS content. Of these, 58 directly address key IFS themes. Remittances (15) and Insurance (8) publications are among the top three in terms of volume, much thanks to the FFR and PARM multi-donor grant funded facilities hosted by IFAD.[40]

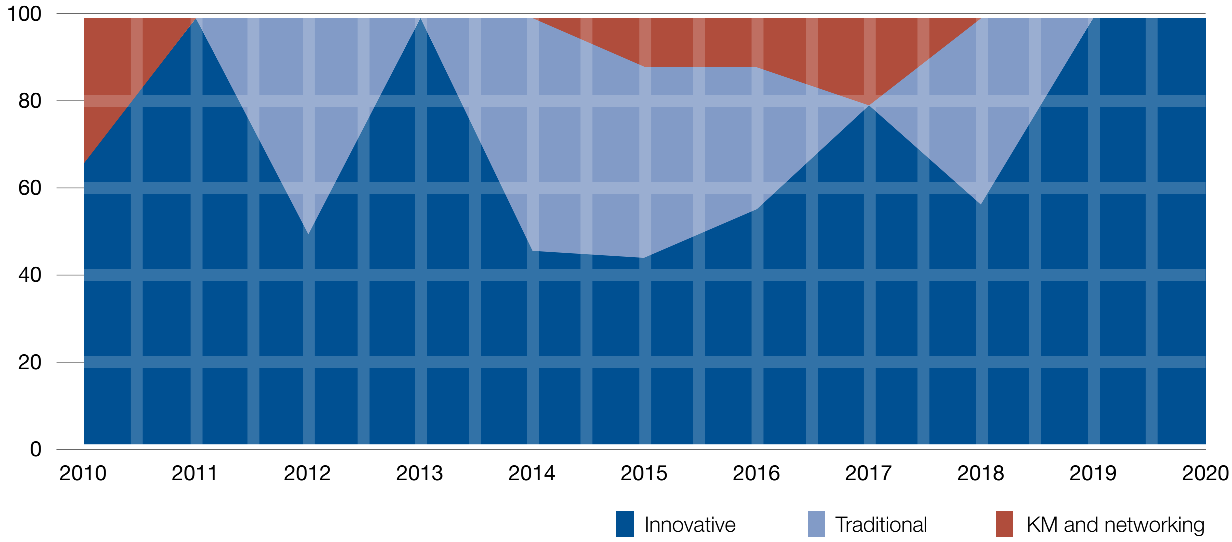
FIGURE 15. IFS KNOWLEDGE GENERATION PRODUCTS



40 The PARM secretariat is hosted by IFAD, and the FFR is a multi-donor Financing Facility for Remittance managed by IFAD.

Beyond these, the largest number of KM products focused on access to individual financial services (primarily savings and loans) and CBFOs. There was a spate of "How To" and "Toolkit" KM products on a range of themes produced in 2014 related to the most common instruments employed in programming (e.g. lines of credits, CBFOs, guarantee funds). Interviewed and surveyed Country Directors and Country Programme Officers noted these types of tools as being valuable for improving capacity to design IFS programming. It is notable, that while 72 per cent of IFAD ongoing projects (21 projects or 31 per cent of the stocktake sample) have substantial value chain interventions, there is only one in-house KM product on the value chain finance (Agricultural Value Chain Finance Strategy and Design 2012).[41]

FIGURE 16. KM PRODUCTS – TRADITIONAL, INNOVATIVE, KM/NETWORKING



Within KM, there was a focus on innovation from 2010 through 2013, pre-dating the rise of innovative programming in 2014-2016 (see figure 8. Ratio of emerging vs. traditional instruments). Pre-dating the rise of innovative programme was a similar notable increase in the number of KM products focused on innovative finance, which suggests innovative programming is influenced in some degree by KM activities.[42] Publication of KM products focused on "innovative" topics increasing in 2010 to 2013 (see Figure 16), anticipating a similar uptick in innovative programming (see 2014-2015 in Figure 7. Proportion of products supported by IFAD programmes categorized as innovative). A similar increase in innovative publications starting in 2019 may indicate a similar trend.[43]

41 Operational Guidelines on IFAD's Engagement in Pro-Poor Value Chain Development, page 1.

42 Note this analysis only considers formal KM products and not networking via working groups, conferences, etc.

43 It is important to note that classification of publications, like programming activities, as uniformly traditional or innovative is difficult at best, and the associations found between figure 16 and figure 7 is illustrative and *cannot be asserted as causal*.

The extent to which KM directly enhances and influences programmatic results and choices within programme design and implementation is difficult to determine beyond simple observable associations. Where KM results in directly applicable design information, programmatic uptake is reported by CM and CPOs to be more likely. The more relevant, compelling and concise IFS KM tools developed, the more likely IFAD and project staff are to employ them, and the more capacity development it engenders.[44] In this regard, developing proactive and positive working relationships between technical experts, design teams and programme implementation teams – a dynamic not always apparent in KM activities – is critical. KM strategy must also address the tension between the need to maintain and grow conceptual/global trends in key areas of thematic expertise development and meeting the more hands-on capacity development needs of the design and implementation teams.

SUMMARY CONCLUSIONS

As IFS enters a new innovation-focused phase, as IFAD's private sector activities gather momentum, and as fewer grant resources will be available, IFAD will need to continue fostering key existing relationships, while reaching out to new partners and networks if it is to maintain and reap rewards as a global IFS leader.

Grants, KM and partnership activities allow IFAD to support strategic and tactical IFS activities beyond regular project interventions, as they help gather, develop and share information vital to the advance of IFS design and implementation. They also help fuel IFAD's global rural IFS leadership role, attract opportunity and talent and, in turn, generate more knowledge and innovation in a continuous feedback loop. Practical, simple to understand and use, and directly applicable KM activities are more likely to translate into effective IFS outcomes, as will aligning with and supporting the most relevant existing and emerging institutions and organizations. Maintaining and increasing design and implementation teams requires enhancing relationships with technical experts and ensuring a balance between IF sector development and practical information on the ground.

44 See for example: Remote sensing for index insurance – Findings and lessons learned for smallholder agriculture (2017); IFAD in Sudan: Linking rural women with finance, technology and markets (2018): Lessons learned: Access to finance for renewable energy technologies (2018); and, Crowdfunding Malian diaspora remittances to finance rural entrepreneurship (2020).

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6 CONCLUSIONS

Given the diversity of contexts in which IFAD programmes operate, the effectiveness of IFS interventions since 2010 has inevitably ranged from "successful" to "challenged." It is the very wealth of IFS experience, however, that provides a degree of understanding of what might work well in the future and where.

While it is true that IFS interventions generally followed good international IFS practice and were aligned with relevant national strategies, market alignment is often limited by a dependence on market overviews over the more transactional, business case view to financing opportunities needed to incentivize market development (i.e. understanding supply and demand needs and motives).

IFS interventions have not always fully followed the RFP, neither have they been uniformly well-integrated within non-IFS projects. Support for mainstreaming themes specifically, and beneficiaries more generally, seldom maximize outcomes and opportunities; and integrating mainstreaming stakeholders into programming is often a function of simplistic proportional targeting rather than focused approaches to meet specific needs.

IFS effectiveness performance was moderately successful on balance. Challenges posed by non-IFS intervention implementation problems, weak project management and/or unanticipated governance disruption negatively affected IFS implementation at least as often as factors associated with the design of the IFS project.

There are several specific conclusions that support these more general observations:

Projects inconsistently assessed and integrated economic and financial sector conditions both in design and through implementation. More commonly and critically, design underestimated the ability and desire of FSPs to provide financial services to beneficiaries on a sustainable basis.

Economic and financial sector supply and demand analysis is often too broad to test proposed demand and potential supply, and the capacity and incentive for beneficiary participation was uneven as a result. The "business case" required to ensure FSP participation risks are covered and incentives are sufficient to leverage more than just "interest" in programme participation was equally uneven. In a notable number of programmes, design alignment sections seem written by rote rather than with purpose, and they are largely unhelpful from a supply and demand business modeling perspective. Beyond simple alignment, the sum of programme activities must articulate a compelling supply side business/transactional case for participation by both supply and demand.

IFAD would do well to innovate on its comparative advantages, rather than seek to do things that are radically different. IFAD is particularly strong on demand-led and community-based approaches; and it has seen much success with the application of instruments that are more "traditional" in approaches and products – CBFOs, matching grants, lines of credit – which dominated the IFS stocktaking project sample. Expanding on this advantage by linking CBFO outcomes more closely with non-IFS outcomes would take effectiveness performance to the next step, as would integrating CBFOs in graduation programmes, particularly in socially and environmentally fragile project contexts, as well as leveraging technologies where appropriate to improve the effectiveness of CBFO approaches.

IFS interventions are becoming more innovative, but innovation remains difficult to apply, with reasonable cause, within the IFAD institutional context. There has been a modest shift towards emerging instruments and greater innovation over time in the IFS portfolio, a trend that features the application of new ways to put traditional interventions into the field, the introduction of innovations well-tested elsewhere, or entirely new innovations through challenge funds. The complexity and speed at which innovative financial solutions are generally developed, along with the need to work closely with the private sector, challenge IFAD's capacity and programme design processes. Policies that work to ensure that appropriate levels of institutional risk are maintained shape the field of possibilities in financial sector innovation. Feedback to risk mechanisms should be rigorously provided through knowledge management activities and partnership engagement.

The growing complexity and size of projects has and will continue to place increased stress on IFS design relevance and implementation capacity. Greater interdependence between IFS and non-IFS interventions and relatively modest IFS budgets – in many cases only small project-specific grants are available to support micro and macro-level support – with increased expectations for leveraging outcomes will increase pressure on PMUs and PSCs already often lacking IFS and private sector experience and expertise. It will also stretch IFAD's capacity to design and support IFS, which has proven good practice performance but suffers from a lack of numeric staffing capacity and partner governments who are accepting loan funding for capacity development. IFS also lacks knowledge capacity, particularly at the project level. Defining IFS outcome leverage expectations and integration strategy is a key opportunity for enhancing non-IFS programming success.

Future IFS activities will be shaped increasingly by non-IFS programming. There has been a steady shift away from larger, stand-alone IFS programmes/ interventions, to IFS components and activities within value chain, market access, and productivity development focused projects. Indeed, in 2019 72 per cent of IFAD-funded projects had substantial value chain activities, up from 46 per cent in 2009. As an enabler in these contexts, effective IFS integration into other project activities is fundamentally important to project outcomes. In this context, IFS interventions support non-IFS outcome achievements. This makes improving the slate of non-CBFO IFS approaches critically important – especially as the application of these approaches was notably uneven across the sample portfolio, particularly as it related to commercial bank agricultural fixed asset lending, agent network banking, emerging digital finance solutions and blended finance and equity investments.

Subsidies continue to be necessary, but their use, purpose, and effect needs to be catalytic and more transparently articulated. Many IFAD-funded IFS interventions subsidize FSPs and/or client rates/fees either directly or indirectly. This subsidy is often an expectation of national governments, and thus, to be competitive the "financial package" offered by IFAD programming must be attractive in terms of cost, convenience and adequacy. Moreover, in many countries, the availability or acceptability of non-state or quasi-state FSPs is limited, and IFAD is often unable to affect change to established financing practice, which can often include subsidized rates. Few projects are fully transparent about subsidies, explaining in detail their characteristics (price, term, etc.) and design outcome relevance. Few provide clear analysis of how subsidies will support sustainable financial inclusion, or how they might leverage non-IFS intervention outputs (even if on a one-time only basis). While IFAD-funded projects rarely have systemic financial market distortion effects, they can reinforce beneficiary and FSP expectations for subsidized finance. This perception can be avoided through improved transparency, measurement of sustainability outcomes and beneficiary/FSP subsidy exit plans as also stipulated in the RFP and DTRF.

IFAD's approach to mainstreaming women and youth has primarily focused on beneficiary-targeting quotas which do not meet international best practice in targeting marginalised and vulnerable groups. While some interventions were well-suited for women and youth, such as CBFOs, few proactive measures were taken to move specially targeted beneficiaries beyond very basic financial products and services, particularly larger asset loans. Expanding context-specific access to insurance, productive asset loans and other products and services would more powerfully address systemic biases. Considering the challenges faced by youth and women, programmes must proactively identify and serve specially targeted beneficiaries, advancing their access to financial services. Women and youth have advanced most effectively where products and services access support is provided on a graduation or step-by-step process, often associated with enterprise/production mentoring/TA which allows beneficiaries to overcome the knowledge, financial, economic and social barriers constraints others may not face.

There are numerous environmental and climate finance opportunities that could be proactively pursued. All IFS interventions encourage greater economic activity and, almost by definition, many projects are likely to have negative environmental impacts (albeit mostly minor and local). IFS interventions could benefit from a more strategic market creating environmental and climate change related products and services (e.g. solar stoves, renewable energy, drip irrigation, biodiversity), as they could from working with FSP to deepen institutional commitments to sustainable finance. Today it is common understanding that environmental, social and corporate governance are the three central factors in achieving the sustainability and social impact of finance and investment, and as such it is critical to invest in more systemic change with specific financial instruments.

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7 STRATEGIC OPPORTUNITIES AND RECOMMENDATIONS

This report finds many good practice approaches and outcomes and many challenges in the IFS sample portfolio. It finds that while still relevant, the RFP must be updated, considering what has worked and what has not over the last decade for IFAD, and the changing market context at the global, regional and national levels.

OPPORTUNITIES

Three broad strategic opportunities stand out.

Build on and innovate CBFOs for outreach and enhanced outcomes. CBFOs are a comparative advantage for IFAD, and they should continue as a central element to IFS activities. Innovating this approach to increase outreach and the number and type of products and services made available to beneficiaries represents an important comparative advantage opportunity for IFAD,[45] particularly for advancing the needs of women, youth, indigenous peoples and persons with disabilities.

Crowd in catalytic private capital through existing and emerging IFS interventions within the growing cluster of private sector initiatives within IFAD. There are an impressive and growing number of initiatives within IFAD seeking to involve and leverage private sector participation in rural development for the poor, and

45 See also toolkits on CBFOs, IFAD 2014 and Institutional Transformation and Regrouping of Rural MFIs, IFAD 2016.

IFAD's recently developed Private Sector Engagement Strategy will only encourage greater private-public sector engagement over the long term. Many IFS programme initiatives have worked with private sector FSPs as a matter of course, and IFAD has a great deal of experience in this regard that can be built upon and shared. This experience and IFS as an outcome enabler can be more effectively applied and integrated into private value chain, infrastructure and productivity interventions. IFS should also look to support or take advantage of IFAD's non-sovereign lending activities which, while currently modest, represent a strategic path for future developments.

Develop strategic IFS approaches to promote mainstreaming themes. Finally, IFAD can work more aggressively to expand mainstreaming theme outcomes by encouraging and supporting IFS interventions that target enhanced outcomes for women, youth, nutrition, the environment and climate. This would take more purposeful, often innovative and proactive design and implementation efforts, as well as alignment with a number of international good practice standards, certifications and approaches. Specific IFS strategies for each theme would effectively drive decision-making.

RECOMMENDATIONS

Policy, strategic approach and theory of change

Update and refine RFP and RFDTs for new programming directions and market contexts. The current RFP, with its focus on sector building and market-driven orientation, remains relevant and provides critical undergirding upon which to build an updated RFP. An updated RFP would be reviewed and refined in view of a decade of progress, different sector and market needs and emerging developments (e.g. technology/digitization, changing institutional landscape, policy and regulatory environment, rural transformation, international/regional charters including South-South and Triangular Cooperation and SDGs), as well as a post-COVID response. It would also build on IFAD's comparative IFS advantages, such as its scale of outreach in smallholder communities, expertise in community-based finance models and understanding of how financial systems work in rural economies to support non-IFS outcomes and rural livelihoods. The update should articulate good practice support for non-IFS programming, particularly in value chain work. Finally, it would articulate alignment with, support for and suggested applications for furthering the SDG goals and relevant global financial sector sustainability initiatives.

Greater synchronization of RFP, operational guidelines and decision tools. The RFP sets out clear guidelines for the role of IFS in programming, what should and should not be prioritized, and the Decision Tools for Rural Finance (DTRF) provides further guidance on how to operationalize this. However, these guidelines are inconsistently applied and are often overlooked in programme design: both the RFP and the DTRF are useful checks and guides to developing good practice IFS interventions, and they should be specifically referenced in design relevance and implementation supervision as appropriate.

Develop a "smart" IFS project integration theory of change. Articulation of good practice IFS integration into non-IFS programming will improve strategic clarity at design, help integrate the logic of IFS in broader programming, as well as identify pathways to measurable IFS contribution to outcomes and impacts. Doing so implies new approaches to theory of change development for IFS interventions, which is broadly and well understood in market systems thinking. IFAD needs to align more closely to international good practices for theories of change[46] and the need for robust M&E systems. The purpose of a theory of change is not to provide a plan of action but to disclose underlying assumptions and to lay out the logic by which the project's actions can bring about change in the market system.

Develop a more systemic and institutionally effective approach for supporting emerging digital financial services. Harnessing digital trends will not be simple to accomplish for IFAD given, inter alia, its lengthy design cycle; however, challenge funds and other innovative approaches can be purposely developed to apply and/or transfer innovation from other experiences. IFAD is also in a strong position to develop new approaches to digital finance given its expertise in community-driven, bottom-up rural financial services, and it has a notable potential for leveraging technology and data to enhance CBFO models which presents a significant opportunity for IFAD's next phase of programming.

Project activities

Continue to focus on and innovate CFBOs. IFAD can solidify its IFS success by building upon its comparative advantages and by aligning with emerging sector trends through the use and innovation of CBFOs – SCGs, VSLAs, Sanduqs and other grassroots models.

Expand and innovate cost effective graduation programming. Graduation programming is effective, particularly in targeting the ultra-poor. Given IFAD's expertise with grassroots approaches and the graduation approaches that IFAD has already developed effectively, it is an area of comparative advantage. However, graduation is expensive, and IFAD should now have sufficient experience to work out new ways to implement the approach while bringing the average cost per beneficiary below US$1,000.

Expand and better articulate IFS integration into non-IFS programming. IFS should be seen not just as an enabler of non-IFS outcomes, but also as a lever for maximizing non-IFS outcomes. IFAD should work to better understand, articulate, design and measure outcomes for this effect. Value chain finance is an example of the need to better integrate IFS and non-IFS.

Expand challenge, innovation, outreach funds/facilities, equity investment and targeted non-sovereign interventions to incentivize private sector participation and innovation. In markets where growth of IFS is constrained by limited innovation or appropriate rural financial services, specialized programme funds allow IFAD to use matching grants in an effective, transparent and innovative way. A more competitive approach to grant making can reduce the risk of "picking winners". This approach allows for risk taking, market flexibility and efficient support delivery that other approaches cannot. A dedicated IFS ICT strategy, including long-term engagements with private and public innovators, is required to identify areas of support both outside and within projects.

46 Best practices in theories of change documented by the BEAM exchange: https://beamexchange.org/guidance/vision/theory-change/.

Improve the adaptability and flexibility of programming. The ongoing COVID-19 crisis has highlighted the potential for exogenous risks to disrupt programming. IFAD should review and introduce as necessary new safeguards, risk management approaches and financial and non-financial service delivery practices to prepare for unexpected risks. New IFS projects will need to allow more room for adaptive programming – this means establishing procurement, management and accountability systems that allow agency and space for adaptive projects to operate. The adaptive approach should run through the project from implementing partners, through the PMU and up to governance and supervisory levels.[47]

Design capacity and knowledge management. M&E systems should be designed to identify broader changes in the market system rather than tracking a narrow set of indicators.

Shift to market intelligence over market description in design. Introduce a streamlined, flexible design template for IFS interventions that identifies key micro, meso and macro IFS sector gaps, while detailing FSP and beneficiary transactional needs and motivations for full participation. Develop the means to measure enhanced financial and social/environmental capital development in order to strengthen current IFAD outcome evaluation methods and to allow for better analysis of supply and demand.

Use and better explain the outcomes of subsidies. Refine and articulate the use of subsidies in IFS activities with more rigorous and transparent analysis on how interventions will either result in sustainable access to financial services and/or leverage sustainable income and asset improvements through support to non-IFS activities (i.e. finance as enabler). Possible market distortions should be assessed and avoided. Subsidies should be employed with a clear view of sustainability and exit strategies as clearly defined in the RFP and the DTRF.

Build IFAD capacity, and insist on PMU capacity where vital. Proactively recruit and train IFS staff, PMU staff, PSC members and consultants to reflect the diversity of required personnel. Consider differential pay scales to attract financial sector talent at the PMU and for consultants.

Simplify knowledge management. Compile knowledge that is simple to aggregate and disseminate and is applicable and useful for design and implementation action. Templates can be developed for estimating the needs of beneficiaries and participating stakeholders, particularly FSP; so too can they be developed for comparative investment cost-to-benefit tables by approach, instrument and product. Develop short, simple to understand IFS knowledge products to spread understanding and use of IFS, but also to attract talent within and outside programmes and IFAD. Continue to link with global and regional development agencies and organizations, particularly for policy research and innovation generally, and ICT in finance specifically.

47 Literature around adaptive programming: https://www.sida.se/contentassets/bfe15e8902fa4dbb864bd478c2f14df1/2018_2a_evaluation_market_systems_dev_approach_vol-1.pdf.

ANNEX 1 DETAILED SAMPLE SELECTION METHODOLOGY

IFS PROGRAMME SAMPLE SELECTION METHODOLOGY

The IFS stocktake could neither assess all projects nor even a representative number of IFAD programmes with substantial IFS activities designed since 2009. Instead, the sample was intended to be indicative of IFS activities across the universe of programmes. The first consideration was to ensure that key objectives of the IFS stocktake terms of reference would be met, including: a comprehensive assessment of topics for learning from the field, bringing regional context into perspective. General selection criteria sought to include programmes that allowed an effective and systemic analysis of IFAD IFS programming, giving a sense of the main instruments and operational approaches at both a global and a regional level.

The final sample was reached through an iterative selection process based on the following:

- **Date of project –** Projects had to have been active by 2010, and the sample included programmes proportionally distributed across the last ten years.
- **Number of projects to be selected –** The sample is not statistically representative, but it was selected to be indicative of trends over time, and it targeted 30 per cent as a minimum number of programmes from the active IFS programmes over the past ten years in each region.
- **Balance of "traditional" IFAD instruments/approaches and emerging instruments/approaches –** The sample selection targeted a balance of more traditional projects, and it sought to include at least 30 per cent of programmes employing some form of emerging instrument or approach in each region. The selection intended to balance IFS standalone projects but there were few and this was not an issue.
- **Size of IF budget –** While not a primary selection criteria, projects had to have a substantial IFS budget to be included in the sample (relative to overall budget).

Once a first sample selection was made, IFA Regional Specialists were consulted to verify that projects were appropriate given the selection criteria. A final sample selection was reviewed by the Regional Specialists and the IFS Stocktaking team and finalized. During research, 5 per cent of sampled projects were dropped from analysis due to lack of documentation.

ANNEX 2
PROJECT SAMPLE BY REGION

Country	Projects
Asia and the Pacific	
Afghanistan	RMLSP
Bangladesh	PACE, RMTP
Cambodia	AIMS
China	LMAPRP, SSAE
India	ILSP, MEGHA-LAMP
Indonesia	IPDMIP, YESS
Laos	FNML
Myanmar	FARM
Nepal	ISFP (KUBK), Samrudhi
Pakistan	NPGP
Philippines	RAPID
Sri Lanka	SAP, STARR
Viet Nam	AMD

Country	Projects
East and Southern Africa	
Burundi	PAIFAR-B
Eswatini	FINCLUDE
Ethiopia	RUFIP-II
Kenya	PROFIT
Madagascar	PROSPERER
Malawi	FARMSE
Mozambique	REFP
Multi-country	E-Granary
Rwanda	PRICE
United Republic of Tanzania	MIVARF
Uganda	PROFIRA
Zambia	RUFEP

Country	Projects
Latin America and the Caribbean	
Argentina	PROCANOR
Bolivia (Plurinational State of)	ACCESOS
Brazil	VoSA
Colombia	TOP
Cuba	PRODECOR
Ecuador	BV
Honduras	PROLENCA
Mexico	PRODEZSA
Paraguay	PROFAMI
Peru	PSSA
Uruguay	PPIR
Western and Central Africa	
Benin	PAPSFRA
Ghana	GASIP, REP
Guinea	PNAAFA
Liberia	RCFP
Mali	FIER, INCLUSIF, PMR
Nigeria	CASP, VCDP
Sierra Leone	RFCIP2

Country	Projects
Near East, North Africa, Europe and Central Asia	
Armenia	IRFSP
Azerbaijan	IDRP
Egypt	SAIL
Jordan	REGEP, SIGHT
Kyrgyz	ATMP
Moldova	IRECR
Sudan	IAMDP, LMRP
Syria	ILDP
Turkey	URDP
Uzbekistan	UDMP

ANNEX 3
ANALYTICAL FRAMEWORK

Title of programme

1. RFP Alignment	
a.	Alignment with the RFP principles and objectives given context, project objectives, etc. (e.g. do not have to have policy or innovative approach if not relevant)
b.	Alignment with RFP guidelines given context and project objectives.
c.	Deployment of appropriate IFS and related instruments.
d.	Design follows international good practice and is aligned with various international principle of performance/implementation (e.g. High-level Principles of Digital Finance Inclusion (DFI), G-20 Global Partnership for Financial Inclusion, GPFI Principles of DFI – Enabling Policy and strategic measures up to SDG 2030 etc.)
Score	
2. Alignment with country context	
a.	Design logic aligned with, sensitive to, and/or appropriately addresses country financial sector micro, meso and macro context?
b.	Project logic (design/implementation approach) aligned with/supportive of country rural, agriculture and poverty development strategy?
c.	Connections/synergy between other IFAD and/or other donor projects
Score	
3. Alignment with and supportive of key transversal and inter-donor issues/themes	
a.	Programme logic defines a clear and contextually substantive strategy for employing financial and non-financial tools for appropriately integrating women, youth, indigenous peoples, the very poor and otherwise marginalized into the financial system?
b.	Programme logic defines clear and contextually substantive strategy for appropriately addressing climate, natural resource management, and nutrition issues with inclusive financial tools as appropriate.
c.	Inter-institutional coordination/exchanges between relevant regional and global institutions/ initiatives relevant and appropriate.
Score	

4. Market-Driven beneficiary demand perspective	
a.	Programme targeting defines identifiable beneficiary population that can be served with planned financial instruments.
b.	Assessment of target beneficiary financial services needs and capacity to employ them.
c.	Process/human capacity to address target beneficiary needs/capacity development requirements to use programme financial products and service.
d.	Design sufficiently flexible to meet needs of target beneficiary needs/demand during implementation.
e.	Finance is linked to non-financial support activities as required with appropriate support.
f.	Degree financial products and services used by target beneficiaries.
g.	Facilitates positive direct and indirect target beneficiary capacity and household economic/ social capital.
h.	Leads to sustainable financial inclusion for target beneficiaries (e.g., capacity/know how to use financial tools, meets needs, etc.).
Score	

5. Market-Driven financial partner/institution demand perspective (at micro, meso, macro levels)	
a.	Assessment of partner institutions needs and capacity (financial institutions and non-financial institutions, individually and/or in aggregate, e.g. 4 P based initiatives).
b.	Ability to address partner needs and capacity to deliver activities during programme (e.g., informal financial organizations' capacity to link to formal financial institutions).
c.	Design is sufficiently flexible to meet changing partner needs/demand during implementation.
d.	Partners understand/support non-financial programme activities, outcomes.
e.	Facilitates positive direct and indirect partner economic, financial, social capital creation/ impacts.
f.	Leads to sustainable partner institutions (if targeted).
Score	

6. Programmatic integration	
a.	Logic of IF integration into other programme components or activities (or vice versa) is realistic given financial sector and rural/agriculture sector context and targeted outcomes.
b.	Degree to which IF is dependent or is depended upon for achieving programme outcomes.
c.	Non-financial programme business drivers well considered and contribute to IF component(s) success or vice versa (e.g. value chain interventions make business sense so lending can occur).
d.	IF and non-IF activities are consistent and lead to programme outcomes for target beneficiaries.
e.	Sequencing of financial and non-finance activities are sound and flexible, inherent risks assessed and controlled for in design/implementation.
Score	
7. Use and application of instruments (traditional and innovative/emerging)	
a.	Appropriate instruments – traditional (credit lines, matching grants, credit guarantee schemes, risk-sharing mechanisms) vs. emerging (graduation programming, decentralized financial systems, inclusive of value chain financing)
b.	Were instruments considered innovative at the time of design?
c.	How appropriate are instruments for operating context?
d.	How well does use of instruments reflect/ employ international good practice?
e.	Do instruments lead to scalable and sustainable access to finance?
f.	Are instruments matched with target beneficiary, partner, and IFAD capacity to use/ implement?
g.	How have instruments changed over time? (scaled up/scaled down/new innovations introduced?)
h.	Development/promotion of financial products – traditional (credit, community banking) vs. emerging (inclusive of value chain financing, digital models, index insurance, leasing)
i.	Should different and/or more innovative instruments and/or approaches have been considered?
j.	Did the programme have the required resources to support the choice of approach and instruments?
Score	

8. Capacity of IFAD	
a.	Strength and capacity to supervise programme.
b.	Strength of programme implementation support (including programme management component only as it affects output and outcome results of IF activities).
c.	Strength of assurance and governance guidance.
d.	Strength and clarity of communications.
e.	Extent to which IFAD institutional systems/processes support/ inhibit programmatic support capacity. (e.g., complexity of systems, decentralization, flexibility, incentives etc.)
Score	

9. Capacity of programme implementor (programme management unit and programme steering committee or equivalents)	
a.	Clarity of organizational/implementation arrangements and implementing institutions capacity.
b.	Strength of programme implementation support and guidance (IF components/activities only).
c.	Extent to which extra IF component/activity programme management facilitated/ inhibited implementation.
d.	Strength of assurance and governance guidance.
e.	Strength and clarity of communications.
f.	Ability to adapt and change to address implementation and management needs.
g.	Strength of monitoring and evaluation, knowledge management.
Score	

10. Project outcomes	
a.	Do IF activities outcomes substantially align with and support non-financial outcomes?
b.	Are IF activities cost- effective given desired project outcomes?
Score	

ANNEX 4 – IF STOCKTAKING SURVEY

IFAD RURAL FINANCE POLICY UPDATE 2020 – ACTION POINT AT COMPLETION OF EVALUATION SYNTHESIS: INCLUSIVE FINANCIAL SERVICES (IFS) FOR THE RURAL POOR

Stocktaking of current IFS practices on the ground

SURVEY

On behalf of the Sustainable Production, Markets and Institutions (PMI) Division, Rural Finance, Markets and Value Chain Unit, we are conducting a brief survey of Country Directors and Country Programme Officers as part of a stocktaking of IFAD's inclusive financial services (IFS –"rural finance") activities at regional level. This work is part of a broader assessment of the Rural Finance Policy of 2009 and is a counterpart to the 2019 IOE Evaluation Synthesis, particularly its recommendation 1: Conduct a stock-take of current IFS practices on the ground and a comprehensive assessment of topics for learning from the field, bringing regional context into perspective. This includes a review of instruments that have been promoted over the past decade – such as matching grants, lines of credit, guarantee funds, financial graduation, index-based agricultural insurance, remittances and diaspora investments in countries of origin, public-private partnerships and business development services linked to finance, agricultural value chain financing. The assessment will discuss how these instruments are designed and conceptually integrated; how they have been used by recipients; the costs involved in administering the grants, guarantees, etc., what longer term impact they generate for beneficiaries, and to what extent they facilitate continued access to finance.

The survey has only five substantive questions. Because the survey is short, it is our hope you can take time to consider each question in-depth, reflecting on your IFS experiences from both a design and an implementation perspective. We are asking for three bullet points response to each question as a means to focus in on what you consider the most important issues.

Your experience and knowledge will provide an important contribution to the stocktaking exercise and will help shape IF at IFAD into the future.

Please note that the information given will be held confidential.

To return your completed survey or to ask any questions please email Marc de Sousa-Shields at: mdess@esglobal.com

Thank you!

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SURVEY QUESTIONS

1. It has been a decade since the IFAD Rural Finance Policy (RFP) was articulated. In your opinion, what are the most significant shifts in the design of rural finance project activities in IFAD over that time? Provide up to three points.
2. From your perspective, what have been the major i) successes and ii) ongoing challenges in integrating rural finance into IFAD programming. Please provide up to three for each.
3. How effective do you feel is IFAD's capacity to design for the various circumstances/needs of different country or product markets and to respond to changing dynamics of those markets over time? Provide up to three points.
4. In your opinion, how effective is IFAD's capacity to communicate and disseminate knowledge on rural finance approaches, instruments, products, and to programme design and implementation? Provide up to three points.
5. As we look ahead to a new decade and the SDGs, what do you see as IFAD's greatest points of strategic advantage relating to rural finance in achieving these goals? Provide up to three points.

IFAD

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March 2021

ISBN 978-92-9266-065-9

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