LESSONS LEARNED FROM IFAD'S INCLUSIVE RURAL AND AGRICULTURAL FINANCE EXPERIMENTS

IN WEST AND CENTRAL AFRICA DURING THE LAST DECADE (2009-2020)

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ABBREVIATIONS AND ACRONYMS

AAFORD	Affordable Agricultural Financing for Resilient Rural Development (Ghana)
BDS	business development services
BFF	Blended Financing Facility
CAF	Commodity Alliance Forum
CASP	Change Adaptation and Agribusiness Support Programme (Nigeria)
FFDA	Facilité de Financement par le Développement Agricole
FI	financial institution
FIER	Rural Youth Vocational Training, Employment and Entrepreneurship Support Project (Mali)
FO	farmers' organization
FODEMER	Rural Microenterprise Development Fund (Burkina Faso)
FSA	financial services association
FSP	financial service provider
GASIP	Ghana Agriculture Sector Investment Programme
IABH	Integrated Agribusiness hub
IGAs	income-generating activities
MFI	microfinance institution
NIRSAL	Nigeria Incentive-based Risk Sharing System for Agricultural Lending
PACER	Rural Economic Growth Support Project (Benin)
PADAAM	Agricultural Development and Market Access Support Project (Benin)
PADMIR	Rural Microfinance Development Support Project (Cameroon)
PAPAM	Fostering Agricultural Productivity Project (Mali)
PASADEM	Project to Support Food Security in the Region of Maradi (Niger)
PASPRU	Rural Business Development Services Programme (Burkina Faso)
PMR	Rural Microfinance Programme (Mali)
PNAAFA	National Programme to Support Agricultural Value Chain Actors (Guinea)
PNPER	Promotion of Rural Entrepreneurship (Togo)
ProMIFA	Shared-risk Agricultural Financing Incentive Mechanism Support Project (Togo)
REP	Rural Enterprises Programme (Ghana)
RePER	Strengthening Productivity and Resilience of Agropastoral Family Farms Project (Chad)
RFCIP	Rural Finance and Community Initiatives Project
RFP	Rural Finance Policy
RUFIN	Rural Finance Institution-building Programme (Nigeria)
VCDP	Value Chain Development Programme (Nigeria)
WCA	West and Central Africa

INTRODUCTION, RATIONALE AND PURPOSE OF THIS REVIEW[1]

For years, IFAD has been promoting access to inclusive rural financial services for some of the almost 3 billion people in rural areas who still live on less than US$2 a day. There is increasingly robust evidence that this could have positive impacts on household welfare, through increasing local economic activities, and, at the macroeconomic level, on the development of a more sustainable and inclusive financial system.

In basic agricultural economics, to produce anything in the agriculture sector, natural resources (land and water), labour and capital are needed. Each of these factors has subcategories; for example, capital can be divided into human, social,[2] physical and financial capital.[3]

When it comes to social and economic development, inclusive rural finance is largely recognized as an essential instrument in the fight to reduce poverty. The justification, especially for IFAD to get involved with inclusive financial services, is to deploy appropriate financial services targeting beneficiaries, namely smallholders and their associate microenterprises, small and medium-sized enterprises, farmers' organizations (FOs), youth and women's organizations, and cooperatives that are linked to or draw livelihoods and subsistence mainly from agriculture. Recently, inclusive financial services have been used to achieve some environmental sustainability and climate change management objectives. However, the activities remain small scale, crippled by numerous constraints, including small farm size, limited capacity, unstructured organizations, limited access to sustained input and viable output markets, limited

1 One of the main recommendations of the 2019 evaluation synthesis report on IFAD's support to inclusive financial services for the rural poor is to continue experimenting with innovative approaches and services locally, while extracting lessons and disseminating learning across the whole of IFAD. In the context of this review, financing approaches are schemes or scaled-up systematic plans that combine rural and agricultural financial instruments, tools, products, innovations and their locally adapted associate non-financial services for smallholder agriculture.

- For definitions of rural financial instruments, tools, products, innovations and services, please consult IFAD's Rural Finance Policy and its Decision Tools for Rural Finance, as well as the 2020 IFAD Inclusive Financial Services Portfolio Stocktaking analysis.
- Non-financial services include the deployment of good agricultural practices with climate-smart interventions; professionalization of farmers' organizations, paying particular attention to women, young people and people with disabilities; viable and professionally managed business development services; technical assistance with capacity development – especially on the demand side, for example financial education and financial literacy; and sustainable and viable market linkages, for example offtaker, outgrower and contract farming schemes.
- This review does not look at how the financial schemes are deployed across IFAD's four cross-cutting themes (nutrition, gender, young people and climate change). It also does not look at the performance of the participating financial institutions vis-à-vis costs, efficiency, profits and market structure as the main drivers of performance and returns on assets, return on equity, social and economic returns on investments, prudential ratios, operational self-sufficiency ratios, financial self-sufficiency ratios, projects-at-risk and outreach, among other things. These aspects could well be the subjects of further analyses in the near future.

2 IFAD target groups are mostly engaged in informal economic activities in which social capital (or social cohesion) and trust among market participants is key, as it contributes to lowering their transaction costs, making them more competitive. Historically, IFAD has paid much attention to strengthening the social capital of marginalized groups. The existence of a minimum stock of social capital seems to be a prerequisite for "pro-poor" value chain development.

3 Physical capital refers to non-human assets, such as plant and machinery, farm implements, seeds and agrochemicals, that help farmers in the process of production and productivity enhancement. Human capital is the knowledge, talent, skills and abilities that farmers bring to their farming work.

bargaining power and high vulnerability to climate change, with women and young people suffering the most. IFAD has done much to support farmers to improve their capacities and boost productivity in rural areas by investing in many of the required activities, for example irrigation and prefinancing inputs for a cropping season.

IFAD has done much to support farmers to improve their capacities and boost productivity in rural areas by investing in irrigation and prefinancing inputs for a cropping season.

Financial institutions (FIs) are often reluctant to serve poor farmers in rural settings given the inherent risks in agriculture and high transaction costs, especially in the case of smallholder agriculture. The reluctance of financial service providers (FSPs) to serve rural poor people is compounded by, at the micro level, the lack of risk mitigation measures (e.g. insurance, guarantees, fair pricing and good governance); at the meso level, the lack of proper mechanisms or financial infrastructure, such as credit bureaus, to assess credit risks; and, at the macro level, the limited capacity of FSPs to assess agriculture credit applications and adapted enabling environment. Credit risks are typical in each of the 23 countries in West and Central Africa (WCA). Unless de-risked, the reality of small-scale farming makes it difficult to extend financial services into rural areas, in spite of the real need to efficiently allocate resources to rural economic players to accelerate rural economic growth and development.

The rationale and purpose of this paper is to extract, disseminate and apply lessons from a quick review of the diverse and varied financial schemes designed for, accessed by and used by poor smallholders and other rural stakeholders[4] in IFAD's project portfolio in WCA over the decade leading up to 2020. The review includes a brief overview of the main financial and non-financial services promoted in the countries of interest. The review also provides an analysis of the joint impact[5] of the financial and associate non-financial services in the local financial systems in these countries.

[4] The other rural players and stakeholders include, first and foremost, the diverse participating FIs, but also small enterprises, service providers and FOs.

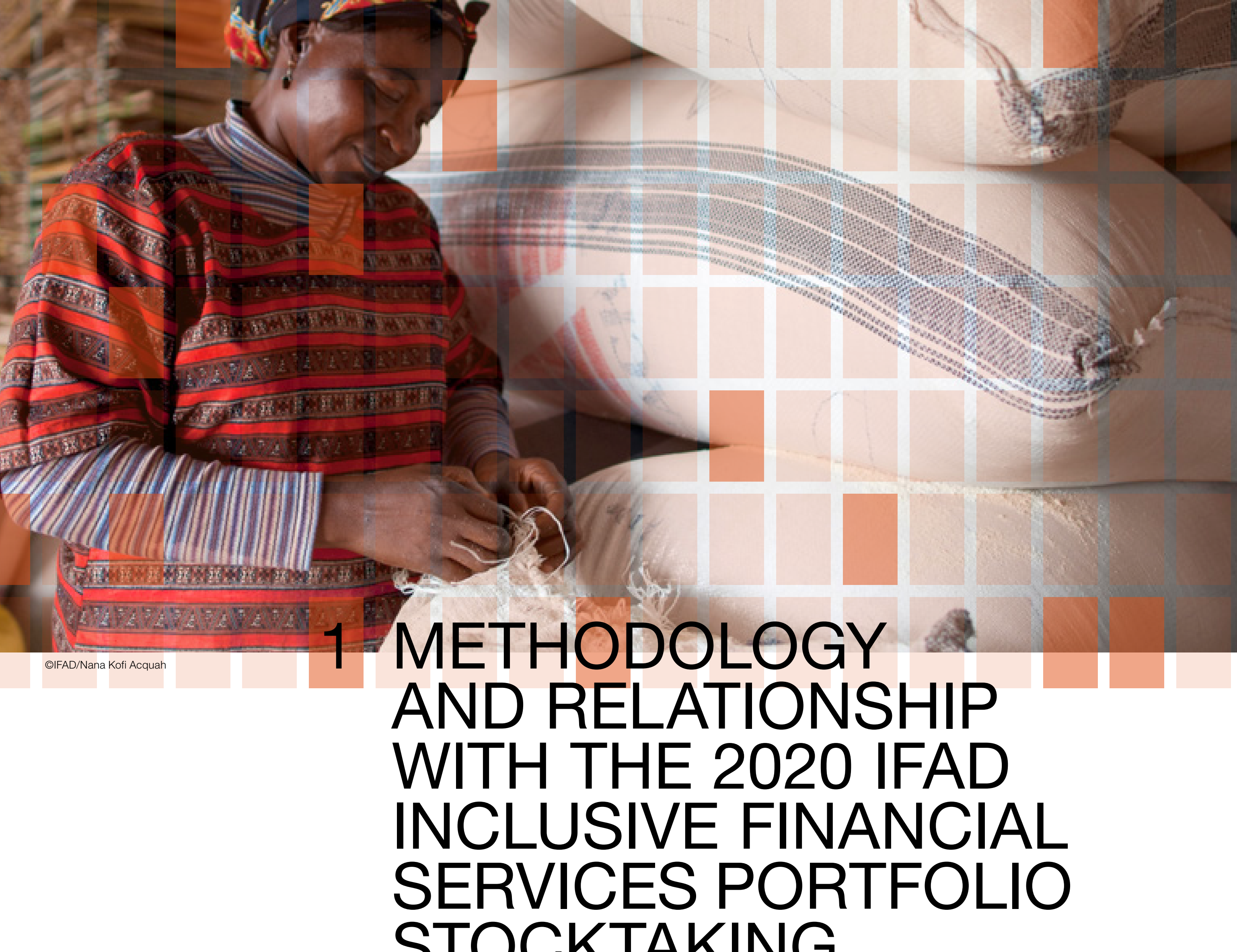
[5] A few of the projects under review have closed recently, and their impact may not yet have been evaluated; those that are ongoing may or may not have produced outcomes yet, depending on their level of maturity. The analysis here is based only on a review of their design, supervision and implementation support, and of any midterm reports.

Although it is not a financial performance analysis of the participating FSPs, this review presents the inclusive nature of the financing schemes deployed through the participating FSPs and their associate services across the different categories[6] of poor smallholders in the region. The paper presents the different schemes in 36 projects under various local economic maturity contexts across 14 countries (out of the 24 countries in WCA). Each of the projects includes in its design at least one activity dedicated to the promotion of inclusive financial services for the project's targeted beneficiaries. One purpose of the review is to identify a number of key factors for smallholders and participating FSPs that could explain the livelihood changes (outcomes or impact) observed in the beneficiary communities.

This review is important because it unveils the heterogeneous environment in which the poor smallholder, with very limited knowledge, is multitasking. Although described as income poor, the typical smallholder is a family person, decision maker, manager, learner, producer, consumer, price taker, processor/"value adder", transporter and businessperson concurrently and is exposed to multiple exogenous influences. The exogenous influences come from complementary services from peers and/or champion farmers, other value chain actors such as extension agents bringing in relevant good agricultural practices (GAPs) with capacity-building in production and productivity enhancement, and post-harvest management (processing and/or value addition activities, transportation, storage and market linkages for effective sale of end products), among others. The review generates lessons and provides interesting insights that IFAD and other development organizations can apply towards developing new, more context-relevant and efficient financing schemes tailored to respond to local demand for new projects, all with the primary objective of generating a positive return on investment and livelihood improvement for the targeted poor rural people.

This review is important because it unveils the heterogeneous environment in which the poor smallholder, with very limited knowledge, is multitasking.

6 The different categories include smallholder farmers who own their land, who form the majority, and others who are landless but have access to cultivable land for farming through some form of negotiation.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1 METHODOLOGY AND RELATIONSHIP WITH THE 2020 IFAD INCLUSIVE FINANCIAL SERVICES PORTFOLIO STOCKTAKING

This analysis consists of 36 projects (table 1), each with at least one significant rural finance activity in the WCA portfolio over 10 years, from 2009 to 2020. The 36 projects approved by 2020 are a subset of the IFAD rural finance projects selected based on a rigorous process[7] for the 2020 IFAD Inclusive Financial Services Portfolio Stocktaking analysis. The projects for the stocktaking analysis were sampled from the five IFAD regions (Asia and the Pacific, East and Southern Africa, Latin America and the Caribbean, Near East, North Africa and Europe, and WCA). The 10-year period provides a perspective on how the design and implementation of the projects have evolved over time under the overall oversight of IFAD's Rural Finance Policy (RFP) and its Decisions Tools for Rural Finance,[8] both of which came into effect in 2010. The Rural Finance Policy and its Decision Tools for Rural Finance provide an improved framework and updated guidelines for design, implementation, monitoring and evaluation of the results and impact of IFAD-supported inclusive rural finance operations.

7 To understand the rigorous process deployed to select projects with a rural finance activity in IFAD's portfolio, readers are encouraged to read this review in tandem with the 2020 IFAD Inclusive Financial Services Portfolio Stocktaking analysis.

8 https://www.ifad.org/documents/38714170/39144386/IFAD+Decision+Tools+for+Rural+Finance.pdf/67965f15-2388-4d23-8df6-aee97bade810

TABLE 1: THIRTY-SIX PROJECTS WITH A RURAL FINANCE ACTIVITY IN THE WCA PORTFOLIO (2009-2020)

#	Country	Approval year	End year	Project short name	Project characterization
1	Benin	2010	2017	PACER	Non-financial sector value chain project with financial inclusion components
2		2015	2022	PAPSFRA	Stand-alone financial inclusion project
3		2018	2025	PADAAM	Non-financial sector value chain project with financial inclusion components
4	Burkina Faso	2010	2017	PASPRU	Non-financial sector value chain project with financial inclusion components
5		2017	2024	PAPFA	Non-financial sector value chain project with financial inclusion components
6		2020	2026	PAFA-4R	Non-financial sector value chain project with financial inclusion components
7	Cameroon	2010	2017	PADMIR	Stand-alone financial inclusion project
8		2015	2022	PEA-Youth	Non-financial sector value chain project with financial inclusion components
9	Chad	2010	2017	PADER-G	Non-financial sector value chain project with financial inclusion components
10		2019	2025	RePER	Non-financial sector value chain project with financial inclusion components
11	Côte d’Ivoire	2014	2021	PROPACOM Ouest	Non-financial sector value chain project with financial inclusion components
12		2018	2025	PAPFA	Non-financial sector value chain project with financial inclusion components
13	Gambia	2012	2020	NEMA	Non-financial sector value chain project with financial inclusion components
14		2019	2026	ROOTS	Non-financial sector value chain project with financial inclusion components
15	Ghana	2011	2020	REP	Non-financial sector value chain project with financial inclusion components
16		2014	2020	GASIP	Non-financial sector value chain project with financial inclusion components
17		2019	2026	AAFORD	Large financial sector project with value chain and financial inclusion components
18	Guinea	2011	2017	PNAAFA	Non-financial sector value chain project with financial inclusion components
19		2013	2030	PNAAFA-II	Non-financial sector value chain project with financial inclusion components

#	Country	Approval year	End year	Project short name	Project characterization
20	Liberia	2015	2022	RCFP	Stand-alone financial inclusion project
21		2019	2029	STAR-P	Non-financial sector value chain project with financial inclusion components
22	Mali	2009	2019	RMP	Stand-alone financial inclusion project
23		2010	2018	PAPAM	Non-financial sector value chain project with financial inclusion components
24		2016	2020	FIER/ crowdfunding	Non-financial sector value chain project with financial inclusion components
25		2019	2025	INCLUSIF	Large financial sector project with value chain and financial inclusion components
26	Niger	2015	2019	PASADEM	Non-financial sector value chain project with financial inclusion components
27		2019	2025	PRECIS	Non-financial sector value chain project with financial inclusion components
28	Nigeria	2012	2017	RUFIN	Stand-alone financial inclusion project
29		2012	2023	VCDP	Non-financial sector value chain project with financial inclusion components
30		2014	2021	CASP	Non-financial sector value chain project with financial inclusion components
31		2017	2024	LIFE-ND	Non-financial sector value chain project with financial inclusion components
32		2020	2025	IABH	Non-financial sector value chain project with financial inclusion components
33	Sierra Leone	2012	2017	RFCIP1	Stand-alone financial inclusion project
34		2013	2022	RFCIP2	Stand-alone financial inclusion project
35	Togo	2014	2020	PNPER	Non-financial sector value chain project with financial inclusion components
36		2019	2025	ProMIFA	Stand-alone financial inclusion project

Over the past few decades, IFAD has shifted its rural finance operations, evolving from focusing on delivering **microcredit and grants**, through providing **financial services** to bringing more comprehensive and diverse **inclusive financial services** with technical assistance (TA), including climate/green finance to poor rural people, with a focus on **savings mobilization**. The diverse but inclusive rural finance encompasses innovative financing schemes, whose effective delivery is guaranteed only by a customized combination of two sets of things: tailored instruments, tools and products;

and non-financial services and innovations (delivery platforms including digital platforms, channels and approaches). Figure 1 summarizes some of the themes that have inspired IFAD to generate financing schemes for WCA.

FIGURE 1: THEMES INSPIRING IFAD-SUPPORTED INNOVATIVE RURAL FINANCIAL SERVICES IN WCA

Some traditional and innovative instruments and products:

- loans, credits, grants, guarantees, debt or equity
- value chain finance (cash-based, cashless or in-kind finance)
- index insurance (agricultural microinsurance – WII and AYII)
- multiperil crop insurance
- microleasing
- remittances
- warehouse receipt finance
- crowdfunds
- green finance

Some services and capacity development:

- business development services
- financial and functional literacy services
- know your client and client protection schemes
- technical assistance
- supply and demand analysis

Some approaches, delivery channels and processes:

- community-based financial systems
- bank and non-bank commercial financial institutions
- financial graduation programming
- digital financial systems and mobile-technology-based financial systems
- bundling plus (GAPs + credit + insurance + output markets)
- value chains with public–private–producer partnerships
- agricultural risk management
- financial de-risking schemes
- private sector NSO
- blending with targeted funds (ABC, NSO, IGREENFIN or RPSF)
- green financing/SECAP Standard 8
- COVID-19 stimulus response packages

Note: ABC Fund, Agri-Business Capital Fund; AYII, area-yield index; COVID-19, coronavirus disease 2019; IGREENFIN, Inclusive Green Financing Initiative; NSO, non-sovereign operation; RPSF, Rural Poor Stimulus Facility; SECAP, Sustainable Energy and Climate Action Plan; WII, weather index insurance.

Source: Compilation by authors.

This review complements the 2020 IFAD Inclusive Financial Services Portfolio Stocktaking[9] by assuming a consistent basis and a common understanding through the application of the definitions used in the Independent Office of Evaluation's inclusive financial services synthesis. This review adopts the same terminology, summarized as follows:[10]

- The term "instruments" is used to refer to the tools used by IFAD programmes to effect change in a financial market system. They describe how funding is distributed by IFAD. Examples of instruments are credit lines, matching grants, technical assistance and equity investments. The word "instrument" is used broadly across IFAD programming, and its meaning can vary widely across different contexts: a credit guarantee scheme can be an instrument, as can an individual loan to a farmer.
- "Approaches" describes the high-level ways in which IFAD engages with a market system. These are often more abstract and can be overlapping. Examples of approaches are the graduation approach, the value chain approach, the community-based finance approach and the commercial finance approach.
- Products (and services) are how the end customers engage with the financial sector. Examples include agricultural small and medium-sized enterprises (SMEs) loans, microcredit, mobile payments and community-based savings accounts.

The renewed inclusive approach to rural finance goes beyond microcredit to embrace a wider scope of financing schemes to serve diverse demands from actors along the various segments of a typical rural pro-poor agribusiness value chain.

9 Readers are encouraged to read this report in tandem with the rural finance stocktaking report.

10 The differences between the categories are not always perfectly distinct but are covered in more detail in the 2020 rural finance stocktaking report, which we recommend as further reading.

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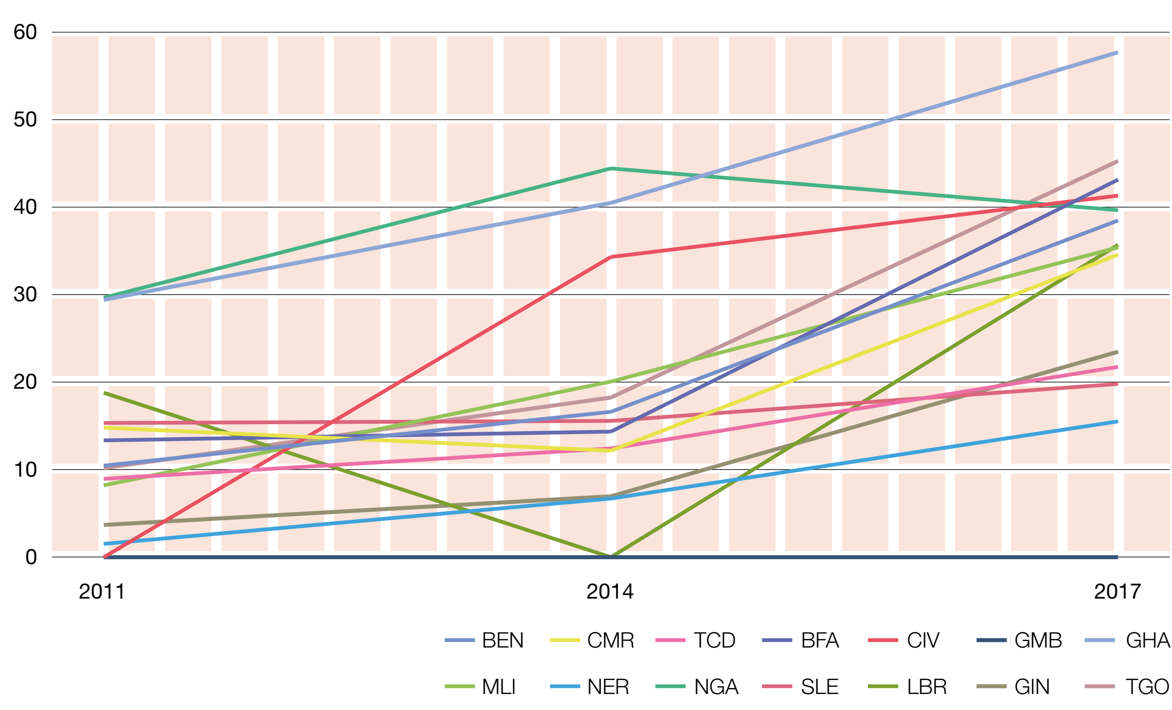
2 IFAD AT THE FRONTIERS OF EXPERIMENTATION WITH INNOVATIONS IN FINANCING SCHEMES IN WEST AND CENTRAL AFRICA

There is a relationship between financial sector performance and financing schemes deployed by IFAD-supported projects in WCA (2009-2020). Complementing table 1, figures 2 and 3 depict more characteristics of the 14 countries of interest and 36 IFAD projects. Each has an inclusive rural finance activity in WCA (2009-2020).[11] Despite the availability of a wealth of data on financial sector performance in general, and on financial inclusion in particular, the proxy indicator chosen to relay the trend in financial inclusion performance for the 14 WCA countries of interest for this review is the "percentage of the population over 15 years of age who own an account at a financial

[11] This analysis does not look at costs, because costs available are total costs related to the rural finance component. It is very difficult to accurately extract the costs per scheme or per associate non-financial service deployed.

FIGURE 2: TRENDS IN ACCOUNT OWNERSHIP (A PROXY MEASURE OF THE FINANCIAL SECTOR PERFORMANCE) IN THE 14 WCA COUNTRIES OF INTEREST (2009-2020)



Source: Data from database for World Development Indicators (last updated 16 December 2020).

institution or with a mobile money service provider".[12] Among the many reasons that could be advanced to support the purposeful choice of this proxy indicator is the fact that data on direct indicators for the countries in this review are limited. Figure 2 shows that, overall, between 2009 and 2020, 13 of the 14 countries of interest experienced some upward growth in the proxy indicator, albeit at different rates. Gambia is the only country for which no data were available.

It is thought that IFAD-supported financing schemes in WCA followed a trend similar to the upwards trend in the proxy indicator. The growth trend indicates that IFAD-supported projects deployed less complex financing schemes in the early years of the Rural Finance Policy, when the proxy indicator for financial sector performance was lower, moving to more complex and sophisticated schemes in its later years (up to and including 2020), when the proxy indicator was higher.

Figure 3 shows the spatial distribution of IFAD-supported financing schemes from 2009 to 2020. The figure shows the evolution of the type of schemes deployed, from simple financing schemes involving single instruments, such as grants and credit, in the early years of the Rural Finance Policy, to more complex financing schemes, such as the tripartite cost-sharing financing mechanism, more recently. The sophisticated schemes

12 Although this is a strong proxy indicator for financial sector performance, there are many more – see the 2017 World Bank Global Findex report. However, more recently the financial inclusion discussion has moved beyond the access and usage paradigm towards a framework that focuses on ensuring that financial services meet the varied needs of poor people to develop their rural and agricultural livelihoods. As the Chief Executive Officer of the Consultative Group to Assist the Poor said, "this shift is not trivial. Focusing on outcomes like capturing opportunities and building resilience potentially leads to different approaches than signing people up for accounts". Although such indicators would seem to be more meaningful indicators, there are no complete data for them for the countries in this review.

combine grants/subsidies, term deposits, debt and equity, among other things, from the three main interested parties – IFAD/government-supported projects, beneficiaries and participating FSPs – in negotiated proportions and at negotiated interest rates, where applicable. While technical assistance is more readily applicable in the more sophisticated schemes, both types of schemes (less sophisticated and more sophisticated) have tailored associate non-financial services accompanying the financial instruments.

Figure 3 shows that 14 of the 36 WCA projects sampled from 2009 to 2020 are now closed. The closed projects provide a number of interesting lessons,[13] given that they have achieved some results. The other 22 projects are ongoing; some of them were approved in the last three years, with recent start-up and effective dates. Those with recent effective dates have just started operations and therefore have generated very few lessons as of yet. As is the case with the projects that have closed, the ongoing projects provide very useful information on design aspects. There are eight projects (almost like stand-alone rural finance projects) with a strong focus on financial inclusion services through commercial FSPs for poor smallholders or enterprises. This implies that the components of the projects are geared towards strengthening the financial system at macro, meso and micro levels. In addition, there are two financial sector projects with financial inclusion components linked to value chain financing for rural and smallholder agribusinesses. In the case of the remaining 26 projects, only some of their activities received a tailored financing scheme linked to specific activities in segments along the agricultural value chain.

Of these 26 projects, about five seemed to have adopted a "balanced" approach. In the balanced approach, there are two technical components: one dedicated to financial service offerings and the other dedicated to typical associate activities. The associate activities are usually related to GAPs for agricultural production and productivity enhancement, progressing with climate-resilient interventions, capacity development and professionalization of FOs, among other things. In general, the component dedicated to financial offerings usually refers to some sort of response to the supply and/or demand for financial services. However, such a response is usually not based on a dedicated segmented rural finance market analysis. Interestingly, three such projects with a component-balancing approach were approved only recently, in 2018 or 2019 (Inclusive Finance in Agricultural Value Chain Project [INCLUSIF] in Mali, Affordable Agricultural Financing for Resilient Rural Development Project [AAFORD] in Ghana and Shared-risk Agricultural Financing Incentive Mechanism Support Project [ProMIFA] in Togo). The recent approval of many two-component projects seems to indicate that this may be the new orientation in project design, with a dedicated innovative inclusive rural finance component to respond to the needs for finance in the other component.

The recent approval of many two-component projects seems to indicate a new orientation in the project design.

13 Lessons learned are discussed in the context of each of the projects highlighted under each financing mechanism.

FIGURE 3: SPATIAL DISTRIBUTION OF IFAD-SUPPORTED FINANCING SCHEMES IN 14 COUNTRIES (36 PROJECTS IN WCA, 2009-2020)

More developed rural markets with a focus on financial schemes on investment and entrepreneurship

Financial inclusion and linkage banking with a focus on deposits for safe keeping and/or savings mobilization to leverage private resources

Grants through FIs for specific themes – young people, innovations and nutrition

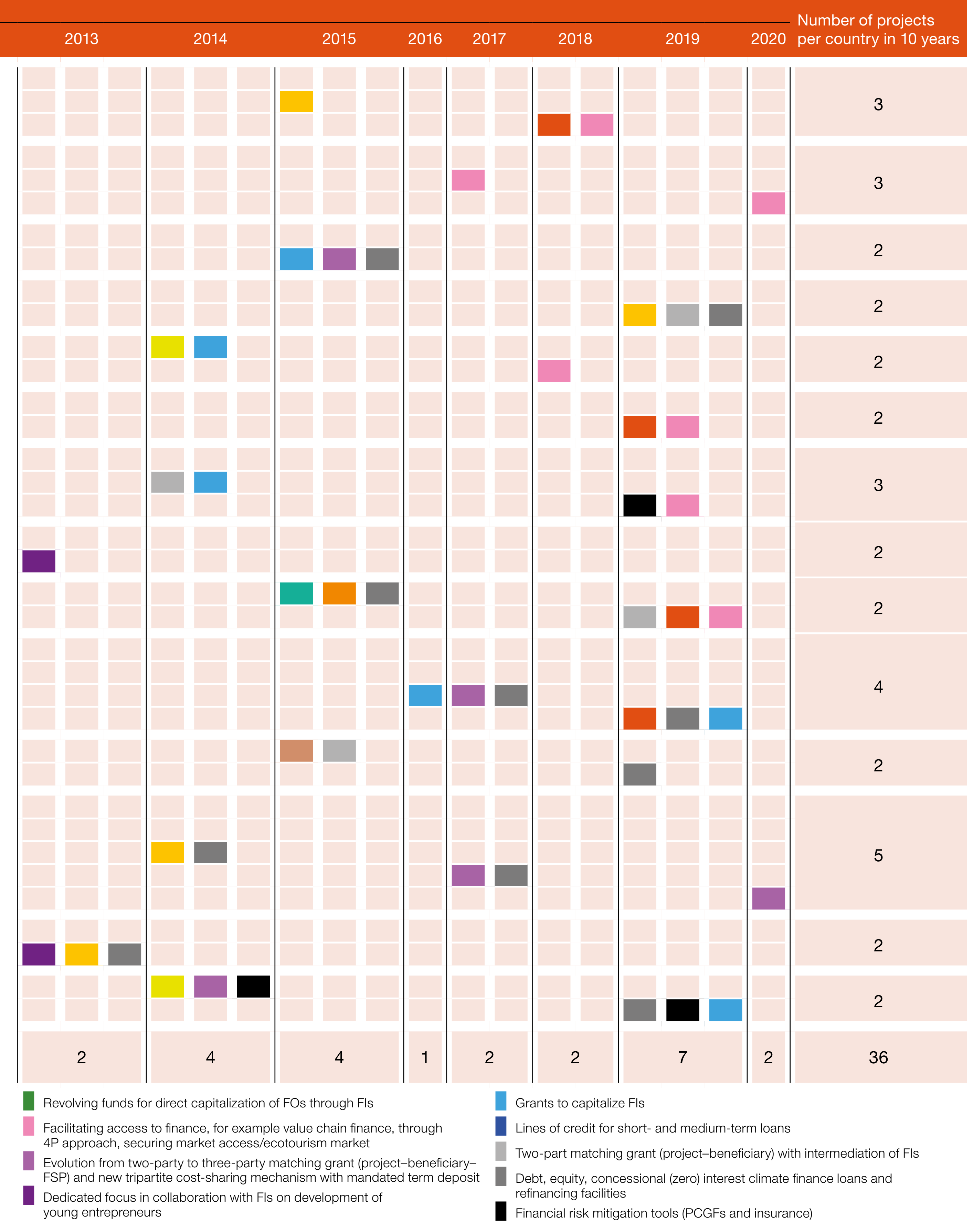
Less advanced rural markets where financial graduation programming approaches dominate

Two-party matching grant (project–private-sector equity) with intermediation of FIs

Financial innovations – warehouse receipt financing, microleasing and crowdfunding

Progressive professionalization of MFIs and set up of apexes

Note: MFI, microfinance institution; PCGF, partial credit guarantee fund; 4Ps, public–private–producer partnerships.


2013
2014
2015
2016
2017
2018
2019
2020
Number of projects per country in 10 years
3
3
2
2
2
2
3
2
2
4
2
5
2
2
2
4
4
1
2
2
7
2
36
Revolving funds for direct capitalization of FOs through FIs
Facilitating access to finance, for example value chain finance, through 4P approach, securing market access/ecotourism market
Evolution from two-party to three-party matching grant (project–beneficiary–FSP) and new tripartite cost-sharing mechanism with mandated term deposit
Dedicated focus in collaboration with FIs on development of young entrepreneurs
Grants to capitalize FIs
Lines of credit for short- and medium-term loans
Two-part matching grant (project–beneficiary) with intermediation of FIs
Debt, equity, concessional (zero) interest climate finance loans and refinancing facilities
Financial risk mitigation tools (PCGFs and insurance)

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3 IFAD'S STRATEGY FOR FINANCING POOR RURAL PEOPLE IN WEST AND CENTRAL AFRICA

The financial sector in rural areas looks very similar across the 14 countries of interest in WCA, although they have different levels of development and maturity (figure 2). Generally speaking, the financial market sector in these countries is highly underdeveloped compared with financial markets in other IFAD-supported countries. Commercial banks are almost absent from the rural sector. The financial schemes offered are mainly delivered through two groups of providers: (i) microfinance institutions (MFIs), including banks and non-banks, for the countries that are most advanced in terms of financial sector maturity (Ghana, Mali and Togo); and (ii) semi-formal and non-formal organizations, including financial services associations (FSAs), village savings and credit associations, savings and credit cooperatives, and other types of small savings and credit organizations, such as community banks, for the least advanced countries (Benin, Côte d'Ivoire, Guinea, Liberia, Sierra Leone, etc.).

However, these two groups of providers are facing similar bottlenecks in their outreach to smallholders in rural areas. The bottlenecks include lack of appropriate capital in terms of cost and conditions, lack of knowledge about smallholder agriculture and lack of tailored or appropriate financing schemes and services that match farmers' needs and demands. The farmers' needs and demands are usually controlled by various factors, including cash flows, business maturity, alternative sources of income at

household level, loan repayment grace periods, pricing/interest rate, and financial and other value chain de-risking measures.

The IFAD rural finance strategy distinguishes four levels of intervention along the finance value chain where constraints must be addressed, as summarized in table 2.

TABLE 2: THE FOUR LEVELS OF FINANCING INTERVENTIONS

Level	Targeted actors	Identified constraints	Solutions
Micro – demand	Farmers and small-scale entrepreneurs	Lack of seed capital Poor financial literacy Sector-specific needs (cash flow pattern, credit size, etc.) Lack of collateral Exclusion from the banking system Lack of access to product market Long distance to FSPs	Savings Financial literacy/education Adapted financing instruments Group mutual guarantee Using non-conventional collateral such as movable assets and jewellery (for women) Opening bank accounts and domiciliating remittances Promoting value chain financing Developing digital solutions
Micro – supply	Retailer FSPs	Distance from demand Poor governance Weak business mindset Limited staff capacities and knowledge of the agricultural sector Lack of resources Inappropriate financial tools to serve farmers High rate of aversion to risk	Increasing outreach and building new branches Developing digital solutions Building capacities Developing business plans Training on the agricultural sector and in technical skills Mobilizing savings/promotion of refinancing scheme Devising new financial instruments Developing a de-risking tool
Meso	Professional organizations, technical service providers and apex bodies	Weak market infrastructures, which generate high transaction costs Lack of high-quality information Limited transparency	Developing sectoral bodies to collectively address common constraints of retailer FSPs on the ground, mutualizing resources and promoting the rural finance subsector in the face of public institutions
Macro	Public institutions and governments	An environment that is not enabling nor conducive enough to favour the flourishing of strong FSPs to serve farmers in rural areas and protect their assets	Reinforcing supervision and regulation capacities as well as independence at the central level based on an improved legal framework and sectoral best practices

This review of IFAD's WCA rural finance portfolio between 2009 and 2020 shows that, among the identified solutions, a limited number of financial and non-financial schemes actually constitute the core of the financial activities promoted by IFAD throughout the different projects. In contrast, some schemes that were initially identified as potential solutions to de-risk agricultural investments and remove barriers for farmers to accessing financing remain underdeveloped.

The core of financing in WCA essentially comprises the two-party matching grants and tripartite cost-sharing financing mechanism schemes. Increasingly, the latter are replacing the traditional two-party matching grants, adding a credit component to this scheme that promotes co-investment by crowding in private resources through participating FSPs (see subsequent sections for detailed description). The associate non-financial services (technical assistance, training, capacity-building, business development services [BDSs] and coaching activities for farmers and FSP staff) remain at the centre of the activities funded by IFAD projects. The associate services are meant to increase technical skills and uptake of financial schemes. Linkages with and access to viable product outlet markets is another indispensable associate non-financial service that has been underexplored by IFAD.

The other innovative financial schemes include warehouse receipt financing and microleasing, which have been tested on several occasions but have not been scaled to any significant level to generate impact for farmers. In addition, two other de-risking instruments that could help to reduce the financing cost for farmers were less mobilized in project designs earlier in the 2000s but are progressively gaining traction among the more recent projects. One is the use of partial credit guarantee funds to cover some of the possible losses for FSPs. A partial credit guarantee fund is a de-risking incentive to encourage participating FSPs to lend more of their own resources to agriculture, especially smallholder agriculture. The second is the range of insurance products (weather index, area-yield index and multiperil crop and/or livestock insurance, etc.) that have long been perceived as powerful financial risk management solutions but whose uptake among WCA smallholders has, to date, been woefully low.

Regarding levels of financial sector maturity and access to financial services for smallholders in WCA, the 36 IFAD projects can be pooled into two different approaches according to the maturity and outreach of the financial system in the rural areas (figure 3).

- In more developed rural markets, the focus of financial schemes is on investment and entrepreneurship.
- In less advanced rural markets, the financial graduation programming approach dominates.

Projects focusing on financial schemes that aim to promote investment and entrepreneurship. The most common approach used by IFAD across the WCA region is to support investment combined with entrepreneurship development as a way to connect farmers and entrepreneur candidates to the financial system, generally through MFIs. This approach is observed in at least 20 projects (61 per cent) out of the 36 under review, and this happens in countries where the financial system in rural areas is developed enough to be able to manage more complex schemes than just small amounts of short-term credit. Examples of projects adopting this approach include the Rural Development Support Programme in Guéra (PADER-G) in

Across WCA IFAD supports investment combined with entrepreneurship development, thus connecting farmers and entrepreneur candidates to the financial system.

Chad, the Rural Business Development Services Programme (PASPRU) in Burkina Faso, the Support to Agricultural Production and Marketing Project – Western Expansion (PROPACOM Ouest) in Côte d'Ivoire, the Rural Enterprises Programme (REP) in Ghana and the National Programme for the Promotion of Rural Entrepreneurship (PNPER) in Togo. In these cases, where the focus is on investment and entrepreneurship, the projects usually provide assistance to farmers, entrepreneurs and SMEs for the development of a business plan to be financed with the aim of including these value chain actors in the formal financial system and establishing long-term relationships between them and FSPs (MFIs, in particular).

Projects adopting a predominantly financial graduation programming approach. In less advanced rural financial markets, where the financial system remains underdeveloped in rural areas, with no active formal MFIs, the most favoured approach is support for graduation programming. Graduation programming involves the provision of a series of gradually more complex financial instruments, starting with savings mobilization[14] and moving towards the lending of interest-bearing resources by local participating FSPs to poor smallholders. The first step consists of organizing smallholders into small groups to mobilize savings and internal credit. The loans are certainly not sufficient for investing in production, but they at least meet specific social needs of rural farmers (tuition fees, unexpected health expenses, etc.). For projects that focus on structuring grass-roots savings and credit groups, the goal is to spark off a culture and habit of saving and engage the mobilization of internal capital at the farmer level (e.g. the Rural Finance and Community Initiatives Project [RFCIP] in Sierra Leone and the Rural Community Finance Project in Liberia).

At a second stage in the graduation programming approach, members of savings and credit groups are trained through financial education programmes to increase their financial literacy and management capacities. Members who receive the financial education become financially literate and can open a savings account with a formal FI and use it to leverage their savings to get access to larger loans. Across the portfolio, this is referred to as the financial inclusion of farmers in the formal system. At this stage, the local groups may be used by formal MFIs to increase their outreach to rural people and broaden their savings base (e.g. the Climate Change Adaptation and Agribusiness Support Programme [CASP] in Nigeria and the Adapted Rural Financial Services Development Project in Benin). In the next stage, MFIs are progressively professionalized through capacity-building and supported by projects to establish apex supervisory bodies. With this sort of evolving maturity, funding to enable MFIs to refinance their rural credit portfolio is increasingly accessible (e.g. the Rural Finance and Community Improvement Programme – phase II [RFCIP-II] in Sierra Leone, which follows up on the achievements of RFCIP, and the National Programme to Support Agricultural Value Chain Actors [PNAAFA] in Guinea).

For the two approaches, IFAD projects are using the demand for specific schemes (including short-and medium-term loans) as a way to improve the capacity of partner FSPs to develop, test and roll out tailored schemes with instruments and products that meet beneficiary demand (e.g. the Rural Microfinance Development Support Project

14 To a large extent, this approach is based on traditional rotating savings and credit associations, with the main difference being that participants feel that this money is their money, not "cold" money from outsiders, which has a major effect on their financial diligence even after additional monies are injected from outside the community.

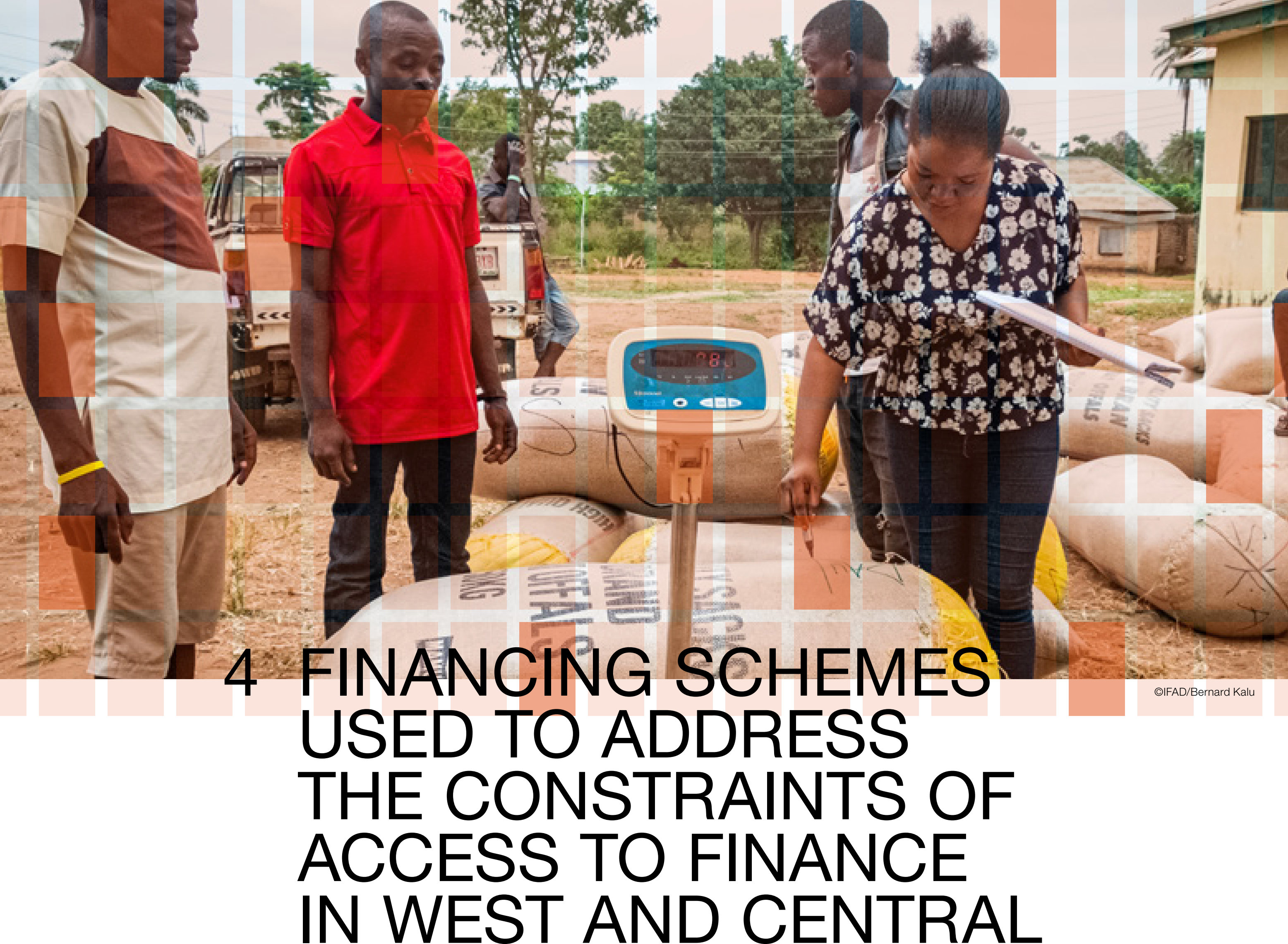
[PADMIR] in Cameroon, PADER-G in Chad and the Rural Microfinance Programme [PMR] in Mali). For the eight stand-alone financial inclusion projects that have a major focus on FIs, the approach differs, with a top-down logic (intervening at the macro and meso levels first to increase FSP ability to offer suitable services) to help structure and strengthen the financial players without specific consideration for the demand.[15]

In the absence of dedicated demand analyses from the beneficiary perspective, the use of top-down logic financial schemes to create demand for credit from the farmer's/entrepreneur's side generally gives poor results, with a perverse effect of subsidization[16] (as described in the following section). Increasingly, the logic has shifted to reinforcing the supply side through refinancing schemes and de-risking[17] instruments to reduce capital cost and credit risk for FSPs, which should, in turn, generate demand for credit.

15 The top-down logic approach creates supply-driven demand based on the presumption that poor rural people do not know their financial needs, so FSPs have to think for them. The presumption that FSPs think for the poor inadvertently results in a shift in IFAD's target from poor rural people to the FSPs performing the financial intermediation function. Previous analysis on IAFD's rural finance portfolio shows that less than 10 per cent of the resources allocated in the portfolio directly benefited the intended target, the rural poor.

16 Poor rural people feel that the loans are being imposed or forced upon them, so they take up loans believing that it is their own forced share of the national entitlement.

17 Gradually supplementing poor-performing agricultural development banks are government-supported new agricultural finance de-risking schemes (e.g. the Nigeria Incentive-based Risk Sharing System for Agricultural Lending, the Ghana Incentive-based Risk-sharing System for Agricultural Lending Project and the Agriculture Incentive Financing Mechanism in Togo). It is still too early to discuss the results of these new schemes.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4 FINANCING SCHEMES USED TO ADDRESS THE CONSTRAINTS OF ACCESS TO FINANCE IN WEST AND CENTRAL AFRICA

THE GRANT

In the days of microcredit, IFAD used grants almost exclusively as a stand-alone financial instrument to capitalize FOs to onlend to farmers to finance their intended increased investments. The loans were used together with GAPs for production and productivity enhancement. These days, the simple and direct grant is no longer used, not least for reasons related to the sustainability of such a scheme. From the sample reviewed, PNAAFA in Upper and Middle Guinea transferred grant funds directly to capitalize FOs. The FOs in turn used the grant funds for one instrument or another to facilitate credit financing to their members (mainly project beneficiaries). However, the use of grant funds in different financial instruments by participating FOs was a diversion from what was initially intended in the project's design.[18]

18 The financing was supposed to be used by the Support and Training Centre for Development, Savings and Credit, and Civic Education (CAFODEC), a second-tier institution that would have provided financing to FSAs, but, owing to performance issues at CAFODEC, a decision was taken that the grant funds would be deposited directly with the FOs whose members were the same members of the FSAs that would have accessed the line of credit at CAFODEC.

The results of the diversion were quite mixed: on the one hand, some FOs (e.g. Fédération des Paysans du Foutah Djallon) used the grant funds as cash collateral (a sort of cash guarantee fund), which they deposited in a partner bank to increase their chances of accessing larger amounts of loanable resources to onlend to project beneficiaries. By using the grant as cash deposit (acting as a form of cash security), the grant ended up inadvertently capitalizing the FOs and their partner banks. The unintended outcome was a reduction in banks' exposure to the risk of 100 per cent loss of its credit portfolio to the targeted project beneficiaries in the event of default. This scheme did not succeed as an incentive to leverage bank resources because a majority of the FOs failed to reconstitute the funding. The reconstitution rates across the six FOs ranged from zero to 85 per cent. On the other hand, for the second phase of PNAAFA (targeting Lower Guinea), the project contribution served instead as an endowment to serve as loanable resources for FIs to increase their capacities to onlend to beneficiaries. Based on lessons generated from the second phase of PNAAFA, since then, grants have been reserved for specific interventions; for example, (i) for the initial capitalization of youth entrepreneurs (the Strengthening Productivity and Resilience of Agropastoral Family Farms Project [RePER] in Chad); (ii) for the promotion of innovations and access to technologies (PASPRU in Burkina Faso); and (iii) for poor communities involved in activities related to improving nutrition (the Project to Support Food Security in the Region of Maradi [PASADEM] in Niger).

The observed impact of using grants for financing is that it creates a culture of dependency on subsidies, either from farmers or from participating FSPs. In an attempt to mitigate creating dependency and unintentionally promoting unsustainability, the approach has evolved in two interconnected directions. The first direction uses the grants as matching grants with a view to leveraging beneficiary contribution (matching contribution) and increasing their sense of ownership. The second direction uses the grant to match a contribution from both the beneficiary and a participating FSP. This second direction is a kind of tripartite cost-sharing financing mechanism that employs the grant as a way to facilitate the inclusion (crowding in) of participating FSPs, farmers and FOs in the financial system through a tripartite agreement. The matching grants and the tripartite mechanism are described later.

THE INPUT REVOLVING FUND

For some projects, the issue of pre-financing inputs at the beginning of the cropping season is addressed through an input revolving fund put in place as part of the project's activities. The principle is quite simple. The project provides an initial fund (the first-generation capital) to finance credit for inputs on behalf of the farmers. After the cropping cycle and sale of the produce,[19] beneficiaries are incentivized to pay back the cost of the inputs (reflows in cash) to reconstitute the fund. It is assumed that the initial fund will usually have been completely loaned out (exhausted) in the first business cycle. The reflows or paybacks or repayments are then used to reconstitute the exhausted first generation capital fund. This reconstitution results in the second-generation capital, which becomes available for the financing of the next cropping season. In capitalizing FOs and doing away with subsidization, this mechanism assists FOs in accumulating liquidity over time to secure the resources, allowing them to sustainably meet their members' input needs. Across WCA cooperatives and farmers, the revolving fund scheme

19 Usually there are no collective sales and each farmer has to repay the necessary amount in full.

has been well understood and has spurred a change in practices related to the need to put resources aside for the next cropping season. However, the repayment rate has always been disappointing, for diverse reasons related to poor yields due to insufficient rainfall or delay in the delivering of the inputs, putting the whole mechanism at risk, especially when the fund is directly run by cooperatives and unions. Another reason for the poor performance of the input revolving fund is the large number of free input schemes available throughout WCA, which act as a disincentive in this context and have made the success of this type of scheme more challenging.

Input revolving funds have increased the understanding of the need to put resources aside for the next cropping season but repayment rates have been disappointing.

That was the case for PNAAFA in Guinea where, with two exceptions, the reconstitution of the revolving fund stood at between 55 and 75 per cent. This may be related to cooperatives' weak management capacities in appropriately allocating resources and monitoring the payback process. In a different approach, the Rural Economic Growth Support Project (PACER) in Benin facilitated consortia between agribusinesses and farmers to collectively manage the revolving fund. In this scheme, an FI provided input funding to an offtaker, which allocated it to partner farmers, and repayment was assured by deducting the initial funding from the sale payment to farmers. The scheme yielded interesting results in terms of farmers having effective access to the right inputs. However, many farmers managed to side-sell[20] their produce to another offtaker and, as a consequence, no increase in the level of repayment was achieved, with a majority of consortia in arrears at project closure. Generally speaking, the mechanism tends to yield better results when an FI is involved in the scheme and is able to pursue recovery of the funds.

THE TWO-PARTY MATCHING GRANT SCHEME

The concept of a matching grant is simple: one party (the project) gives a grant and the second party (the beneficiary) accepts the grant on the condition that they match the contribution. The matching grant portion in many cases is provided on a reducing scale such that the ratio at the beginning of the project is higher than the beneficiary's matching contribution. At the end of the agreed period, the matching requirements would be reduced over repeated financing cycles, with the project contributing progressively less than the beneficiary. At the end of the project period, it is expected that the beneficiary will have accrued capacity and will be fully responsible for 100 per cent of their financial needs as the grant is phased out.

The use of this basic two-party matching grant in a financial scheme requiring the beneficiary to contribute (matching contribution) tends to be less favoured in recent project designs. Only seven projects (21 per cent) out of the 36 sampled included such an instrument over the last decade. The seven projects are RePER in Chad (ongoing), the Value Chain Development Programme (VCDP) in Nigeria (ongoing), PASADEM in Niger (closed), the Fostering Agricultural Productivity Project (PAPAM) in Mali (closed), PASPRU in Burkina Faso (closed), the Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STAR-P) in Liberia (ongoing) and PADER-G in Chad (closed). Out of the seven projects, two did not yield good results in terms of uptake (PASADEM and PASPRU) and three others evolved towards a tripartite agreement

[20] One explanation for such side-selling is that the farmers in question may not have appreciated or attached enough value to these inputs as a reason to remain "loyal" to the offtaker.

(VCDP, PADER-G and PAPAM). The initial approach looked at providing funding for farmers to invest in a number of assets locally through demand-based microprojects or development plans (including input financing). In accordance with the definition, which envisages one-off support to reach out to a large number of farmers, only the first cycle is usually funded, with the aim that development finance institutions will subsequently finance any further development through credits or loans. Matching ratios always depend on the nature of the assets/goods required (inputs, machines and infrastructures) and the target beneficiary. In the case of women and youth farmers, the required contribution tends to be smaller, as in PAPAM and PASPRU.

Matching grant funds pose a serious challenge when it comes to sustainability. With a lack of incentive for repayment, this scheme has been inclined to lure farmers looking to capture the matching grant component only, without serious consideration for the profitability of their activities. For example, in the case of PASPRU in Burkina Faso, the quality of the proposed microprojects was highly dependent on the ability of the support system to guide promoters towards a viable project and to ensure that the return on investment was seriously factored in. The personal cash contribution of the beneficiary is supposed to encourage a sense of ownership, an incentive that should push the beneficiary to do well. However, in practice, beneficiaries often face difficulties in mobilizing their matching contribution, with some asking for their in-kind contributions (land, labour and local materials) to be valued and considered as their matching contribution.

In several projects, in an attempt to increase uptake, the ratios were consequently modified to lower the farmer contribution or, alternatively, to allow for contribution in-kind. As an example, the Community Development Fund of RFCIP in Sierra Leone reduced the individual contribution from 20 to 10 per cent, and allowed matching contributions to be provided in-kind. For PAPAM in Mali, it was initially foreseen that beneficiaries would have required a loan from a local FI to finance their own 25 per cent matching contribution. However, beneficiaries in Mali (in an attempt to avoid credit risks and costs) used solutions other than taking a loan from the participating FI; for example, some used personal savings, while others borrowed money from neighbours and family. Following the PAPAM midterm review, owing to poor uptake of the matching grant, the resources allocated by the project were reallocated and used as a term deposit to support linking beneficiaries to FIs and encourage professional use of the grant with a longer-term perspective. The matching contribution was also reduced in the Ghana Agriculture Sector Investment Programme (GASIP) if beneficiaries who were initially scheduled to make a matching contribution of 30 per cent could not raise such an amount. The slow response or failure of GASIP beneficiaries to provide the high matching contribution resulted in the slow or non-disbursement of the matching grant, which contributed to a low disbursement rate for the whole project at midterm. This low disbursement rate, among other performance issues, resulted in GASIP being given the status or a "problem project", leading to midterm restructuring. The restructuring included GASIP stepping up the matching grant from 70 to 90 per cent, while reducing beneficiary matching contribution from 30 per cent to 10 per cent as a means to boost disbursement of the matching grant.

The matching grant instrument nowadays is more commonly used as part of a more comprehensive scheme with concern for linking beneficiaries to FIs and ensuring their access to financing solutions beyond project completion. PADER-G in Chad,

with an initial project contribution to beneficiary contribution ratio of 85:15, led the way with its matching grant scheme, which evolved over the course of the project's implementation towards being a tripartite agreement including a compulsory credit component, which was not in the initial design. This spurred the FI's increased involvement in the financing of farming activities (in total, 40 business plans received funding of almost XAF 70 million, of which XAF 42 million was grants, XAF 23 million came from the beneficiaries and the balance, XAF 5 million, was loans from partner financial institutions).

THE TRIPARTITE COST-SHARING FINANCING MECHANISM

In addition to the project grant and the matching contribution, the tripartite cost-sharing financing mechanism, a three-party matching grant financing scheme, includes a compulsory loan from a local partner FI. The ratios differ depending on the priorities of the scheme (the target group, the nature of the assets, etc.). This form of subsidization in development finance has almost been mainstreamed across IFAD projects for the last 10 years, but has only fairly recently been implemented in WCA. The main objective is to make sure that a relationship between producers/entrepreneurs and partner FIs is set up by the completion of the project, with concern for sustainability. Over the course of the project activities, the incentive, brought to the beneficiaries in the form of a grant, is aimed at partially de-risking partner FI engagement while building a credit history for beneficiaries with a longer-term perspective. However, lessons learned in PACER in Benin, which ended in 2016, show that a tripartite scheme is not a silver bullet when it comes to incentivizing partner FIs. Indeed, partner FIs proved to be reluctant to participate, even with a grant component involved, given that the risks remained high when lending to target producers who had demonstrated weaknesses in their capacities to manage a productive investment plan. Under conditions of unabated risks, partner FIs expressed the need to also benefit from a credit guarantee mechanism if financing was to be forwarded to risky smallholders.

A similar experience occurred with PROPACOM Ouest in Côte d'Ivoire, where the local partner FI scrambled to access a cash guarantee scheme that was mentioned in the project design but was never set up during implementation. Realizing that the guarantee mechanism was not functional, the partner FI raised its interest rate overnight and unilaterally increased the matching contribution, as two risk-hedging mechanisms. This unilateral decision prompted numerous farmers to default on loan repayments. On the other hand, beneficiaries may also be excessively cautious about taking out credit, hindering the knock-on effect of the matching grant tool on the growth of the credit portfolio. The youth entrepreneur candidates supported by the Youth Agropastoral Entrepreneurship Programme (PEA-Youth) in Cameroon, for example, made use of the first start-up kit, which included a grant component for the launching of their business activities. Afterwards, however, the access to credit remained low, with only 20 per cent of the awardees in 2020 leveraging a productive loan. In Ghana, the 2019 supervision mission of REP proposed to increase the grant part to 50 per cent and to de-emphasize the use of a bank loan as a condition to benefit from the grant. Still in Ghana, the same experience was observed with GASIP, where the initial ratio of contributions from the project (grant), FI (loan) and beneficiary (matching contribution) changed as a result of

project restructuring from 30:60:10 initially to 70:30:0 at midterm. This drastic[21] change in ratio was the result of many factors – FIs' reluctance and/or unwillingness to participate because of perceived unavoidable risks, high transaction costs and beneficiaries' inability to raise matching contribution as a condition to access the loans from FIs.

In the case of the Rural Youth Vocational Training, Employment and Entrepreneurship Support Project (FIER) in Mali, the grant awarded is transferred directly to the beneficiary's bank account but is ring-fenced (acting like compulsory savings). The savings can then be accessed only after a loan has been made at a negotiated interest rate and paid back in full with all accrued interest. The loan amount covers 100 per cent of the capital requirements for the implementation of the beneficiary's business plan. The grant (guaranteed cash collateral or cash deposit), acting like a "security deposit" under the legal form of a fixed deposit, is blocked on the beneficiary account but is used as a source of capitalization of the host FI. These resources are augmented with the partner FI's own resources and onlent to the targeted young people who present viable, profitable and bankable business propositions. In such cases, the business plan is first fully financed with a loan that is de-risked by the fixed deposit. When the loan is fully repaid, including all interest, the grant is released to the beneficiary. The grant recipient may choose to use the earned compulsory savings grant resources as further cash collateral for a second round of credit or for any other economic and/or social investment of their choice.

This scheme of grants-turned-compulsory savings effectively addresses the issue of the risk associated with the financing smallholders and works well in incentivizing FIs to provide financing to beneficiaries with viable business plans developed with the help of dedicated business development services (BDSs). For example, FIER in Mali experienced loan repayment rates of nearly 100 per cent. Young people who benefited from the first round of loans guaranteed by the security deposits (especially those in livestock fattening), were able to access loans of up to 600 per cent of their first-round amounts. Business-minded young people were able to use part of the proceeds from their first loans to augment their compulsory savings, to create more cash collateral, which was then used by participating FIs to appraise and give them even larger loan amounts. The larger loans were based on bigger and much improved business propositions with reliable cash flow forecasts and a verifiable repayment history. Under PEA-Youth in Cameroon, youth entrepreneurs had access to a zero per cent interest loan to finance the first cycle of activities. After the first cycle of investment, it was expected that the fledgling business would be strong enough, with sufficient creditworthiness, to attract more credit from partner FIs. At the time of writing this report, the repayment rate for PEA-Youth had not yet been reported.

Loan repayment rates were almost 100 per cent under the FIER project in Mali.

In both cases (Mali and Cameroon), it appears that the BDSs' level of command of business development, planning and management and the knowledge they imparted to the targeted beneficiaries were as important as the quality of the microprojects financed in securing a positive outcome.

More generally, the tripartite mechanism cannot be effective enough without support from associate non-financial services (e.g., technical assistance for partner FIs and BDSs and coaching for farmers during their business plan preparation processes, as is the case with FIER in Mali). In FIER, intensive coaching in the run-up to the post-

21 Perverse incentive of the matching (matching grant not able to crowd-in private capital): farmers perceived the grant as part of the national entitlement.

financing phase led to good repayment rates (90 per cent and over). However, when the project grants expired and because of COVID-19 pandemic restrictions (e.g. cross-border restrictions on livestock and crop movement), only a few youth entrepreneurs kept using financial services from partner FIs in Mali.

THE MATCHING GRANT FOR EQUITY MOBILIZATION

A matching grant as an incentivizing tool is also used to facilitate partnerships between players along the value chain and to support the inclusion of smallholders. In this case, the project scheme looks at cofinancing a more comprehensive business plan that includes farmers through their FO and a formal downstream private company. The private sector offtakers that source directly from farmer organizations are interested in expanding their supply base and strengthening their supply chain. The focus is very much on connecting farmers to potential buyers, but also to the market. In such a case, the matching grant instrument finances a business plan comprising productive investments and technical assistance to increase farmers' capacities to deliver.

This approach, which seeks to engage the downstream private sector (processors, agribusinesses and buyers), is relatively recent across the IFAD portfolio in WCA. Only five projects in the sample include such a scheme geared towards securing an enduring access to the market for farmers through incentivizing buyers to commit in the longer term. Four of them are quite recent (approved after 2018) and are thus yet to produce their first outcomes (no supervision as yet). Among them, three types of productive partnerships can be found according to the level of integration between farmers and their offtakers.

- The first type was adopted by STAR-P in Liberia, for example (the ratio of project to beneficiary contributions is 70:30). In this project, the matching grant scheme supports the realization of simple short-term contracts between producer and buyer. By entering into such a contract, smallholders have access to financing through matching grants that can contribute to the costs of investment subprojects to support a one-off arrangement with agribusiness firms and offtakers. There is no particular focus on sustainability; it is expected only that the contract will be subsequently renewed if it goes well. In this model, only the farmers invest in the development plan.
- In the second type, the private partner is expected to contribute financially to the plan, to make the partnership stronger. This is the case, for example, with the National Agricultural Land and Water Management Development Project and the Resilience of Organizations for Transformative Smallholder Agriculture Programme in Gambia, and INCLUSIF in Mali (in this last case, the private partner contributes 70 per cent and the FO contributes 30 per cent, of which 70 per cent is granted by the project). The partnership is not based only on a simple contract; partners share a co-investment (usually referred to as a public-private-producer partnership [4Ps]) in which each party has a stake and an interest in positive outcomes. It is thus supposed to be built to last beyond the initial contract. Under such a scheme, private companies also benefit from grants from the project along with the FOs to support the implementation of the partnership.

- The third type of partnership , co-enterprise, goes one step further in the integration and is truly innovative. In this model, the capital required for a new enterprise is provided by both farmers and buyers, and consequently farmers with equity or stake have a say in the overall management of the common firm beyond simply access to the market. This is what the Agricultural Development and Market Access Support project in Benin is promoting with a financing scheme in which three partners (a private company, an FO and an investing fund) will each finance one third of the capital. The project provides 90 per cent of the FO equity contribution. Evidence of success is still needed to prove the concept.

Most projects use all three types of partnership, adopting a progressive approach in which an initial simple contract serves to build the trust between stakeholders, following which the partnership is upgraded to a higher level. It is expected that the most mature FOs will eventually be in a position to raise the bar to the highest level of partnership. Moreover, in any of the three situations (contract, 4P and co-enterprise), the global financing scheme could be leveraged to secure a loan from FIs, as with GASIP in Ghana, where a matching grant fund was set up to attract equity from private investees. Investees are supposed to obtain a medium- to long-term loan of at least 12 months for investments in machinery, equipment and buildings. The matching grant facility will enhance undercapitalized enterprises to finance investments that will improve value chain linkages. The initial ratio for the matching grant equity scheme for GASIP Ghana was 40:50:10 from project, private and beneficiary resources, respectively. However, owing to a combination of adverse selection and moral hazard,[22] the matching grant fund failed to crowd in private equity, resulting in a restructuring of the financing scheme in which the matching grant contribution was increased from 40 to 70 per cent, while the remaining 30 per cent could be financed from any other sources (savings, loans, etc.) without seeking a loan from a partner FI.

DEBT, MARKET-PRICED LINES OF CREDIT AND CONCESSIONAL LOANS

Credit is the main instrument developed by FIs, and IFAD-funded projects are largely supporting them to deliver this primary financial service to smallholders, particularly for large projects dedicated to boosting financial services. This is achieved by helping partner FIs to develop new credit products that are well aligned with producers' capacities and needs. The primary financial function is also achieved by providing the necessary lending resources for smallholders to expand their operations. Most of the intermediary FIs are not creditworthy enough for the banks and therefore are not able to access affordable refinancing to increase their capacity to onlend to their smallholder clients. Their source of funding is internal capital only: share capital (for community-shareholder-owned institutions) and savings. However, in rural areas, clients are largely

22 Adverse selection results when one party makes a decision based on limited or incorrect information, which leads to an undesirable result. In GASIP, participating FIs did not understand the de-risking measures put in the value chains and so continued to price risk premium for smallholder farmers high in their interest rate calculations. Moral hazard is when an individual takes more risks because they know that they are protected because another individual bears the cost of those risks. In GASIP, smallholder farmers decided to develop business plans including very expensive agricultural machinery, as they knew they could put political pressure on the project to pay up to 70 per cent of the total cost.

poor people with scarce disposable revenues to be saved. Consequently, the resources available are by far insufficient to cover the need for credit. CASP in Nigeria found that only 18 per cent of FSAs' shareholders accessed loans for their activities. To partly fill the financial gap in the CASP area, IFAD, through its non-sovereign operation, has responded further to the debt needs of Babban Gona (a private sector company),[23] which are tailored to a niche demand for smallholder finance. In the case of FIs, access to external refinancing led to an increase in portfolio size and a reduction in operating costs, with the prospect of reaching profitability and operational self-sufficiency/ financial self-sufficiency autonomy.

For some projects, the approach is to engage governments and the public sector to commit funding for MFIs (e.g. the Rural Community Finance Project in Liberia, where the Rural Finance Facility is capitalized through the Ministry of Finance, which provides low-interest loans, and CASP in Nigeria, where the project provides working capital loans). Recently, RFCIP-II in Sierra Leone has also designed a scheme to attract private capital to a fund intended to refinance FIs on commercial terms. However, a number of projects provide facilities to directly refinance FIs, for example PADMIR and PEA-Youth in Cameroon and PMR in Mali. In Mali's FIER and INCLUSIF, the capital is lent to FIs in the form of a term deposit (at a rate of 5.85 per cent over 10 months). Similarly, with RePER in Chad, a refinancing line is deposited in the form of a term deposit in the FI's book, earning interest. With ProMIFA in Togo, a term deposit (belonging to the project and not to beneficiaries, as is the case with FIER and INCLUSIF) that partly capitalizes the participating FI can only cover a portion of the loan amount, thus encouraging the FI to commit its own capital at a multiplier of between 200 and 400 per cent.

For some projects, the approach is to engage governments and the public sector to commit funding for MFIs.

To address concern about the risk of exposure carried on longer-term loans and to maintain a good capital turnover, some other projects include in their portfolio a partial refinancing scheme to support FIs' investment on a case-by-case basis, once credit has been granted. This was the case with REP in Ghana. In Mali, FIs engaged with FIER, and now with INCLUSIF, have the opportunity to refinance their midterm credit portfolio, with the expectation of leveraging the Babyloan crowdfunding platform, which will be enhanced to channel concessional capital pooled from the Malian diaspora in France and is soon to be extended to other European countries with Malian immigrants.

An extreme case of concessional capital has recently been designed in the Project to Strengthen Resilience of Rural Communities to Food and Nutrition Insecurity in Niger, where the national development bank, as a wholesaler, is benefiting from state resources borrowed through IFAD's Inclusive Green Financing Initiative agenda[24] from the Green Climate Fund (a green financing programme) at zero per cent interest. With the Green Climate Fund taking the credit risk, the climate-smart green resources are on-lent at a

23 Babban Gona Farmer Services Nigeria Limited: IFAD's Executive Board approved a seven-year partnership project with Babban Gona. The project will mobilize private sector resources and know-how to support targeted smallholders in the CASP area in northern Nigeria in transitioning from subsistence agriculture to sustainable agribusiness. The total cost of the project is US$150 million, with IFAD's contribution a senior loan of up to US$5 million for the first round (US$90 million). For more details, please contact IFAD's Private Sector Advisory and Implementation Unit in the Markets and Institution Division.

24 See more on greening the financial sector agenda through the lens of IFAD's 2020/21 Inclusive Green Financing Initiative concept, which is currently planned to cover 12 countries, with at least 8 of them in WCA, and as part of the African Great Green Wall Initiative.

zero per cent interest rate to a specially targeted group of poor rural people engaged with renewable energy technologies used for smallholders' income-generating activities (IGAs).

Frequently, even though the resources are made available, FIs' access to funds is determined by expected achievement in terms of performance and risk management. In Cameroon, FIs engaged with PADMIR or PEA-Youth found it hard to effectively leverage the funds available. In any case, the need for support at the demand level is as important as the technical assistance provided to FIs.

RISK MITIGATION INSTRUMENTS (GUARANTEES, INSURANCE, SECURITY AND COLLATERAL)

Partial credit guarantee funds and insurance are instruments that are still uncommon in IFAD-funded projects, but they are gaining traction for their capacity to potentially help credit providers to reach out to risky but market-driven smallholders, in particular in countries where the financial system is more advanced (Ghana, Nigeria and Togo). Of the 36 projects reviewed, only 5 explored such instruments. In one of the projects (PACER in Benin), the apparent function of the partial credit guarantee fund was actually confused with that of a security deposit that was meant to be used as a cash collateral for refinancing. The difference is that a partial credit guarantee funds is not cash collateral that can be used as a resource for lending. Experience has shown that in spite of the partial credit guarantee fund and agricultural insurance programme, banks and other FIs that are very risk averse continue to charge very high interest rates to cover their risk. In addition to the partial credit guarantee funds (albeit non-silent)[25] and insurance, partner FIs still demand physical collateral (valuable mobile and immobile assets) from the beneficiaries. Interest rates remain high and unaffordable in most cases because the various risk mitigation and/or risk transfer schemes put in place do not translate into, or contribute to, a reduction in the risk premium factored into onlending interest rates. However, supporting FIs to partner with partial credit guarantee funds and insurance initiatives can improve their lending capacities through better access to concessional credit funds, which in turn leads to reduced onlending interest rates for smallholder agricultural loans.

The Rural Finance Institution-building Programme (RUFIN) in Nigeria is one of the most prominent projects that tested the partial credit guarantee funds for FIs. The design included the provision of US$1.5 million for the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) guarantee mechanism, which aimed to facilitate access to a refinancing fund, the Micro, Small and Medium Enterprises Development Fund. The mechanism was based on a risk-sharing scheme, with NIRSAL covering 25 per cent of the loan amount, thus easing the 50 per cent collateral requirements for FIs. At completion, the Central Bank of Nigeria reduced the

25 Generally, partial credit guarantee funds are supposed to be "silent", but during start-up workshops, everyone represented, including farmers/potential borrowers, is fully educated on the components and activities of the project. Because of adverse selection and moral hazard issues, borrowers who are knowledgeable about the guarantee fund take loans but most often silently and wilfully resist or deny paying back these, in the hope and expectation that their lenders/PFIs will fall back partially or totally on the fund to cover any losses resulting from non-repayment. In addition to low revenues generated as a result of productivity and marketing issues, the non-silent partial credit guarantee fund affects borrowing behaviour and inadvertently contributes to the high non-performing loan ratios recorded in rural smallholders' lending portfolios.

collateral requirement for refinancing to 30 per cent, with NIRSAL covering 10 per cent. However, a number of technical factors prevented the mechanism from fully benefiting the targeted FIs. One such factor was the cap of 9 per cent on the annual interest rate that could be charged to the farmer beneficiary, which made this fund unattractive to the FIs.

Togo's ProMIFA, which started operations in 2020, will build on PNPER's achievements. With the latter, the public fund Agence Nationale de Promotion et de Garantie de Financement provided a 75 per cent guarantee to FIs for lending to smallholders for a commission of 1 per cent of the guaranteed amount. However, operations have just begun and it is still too early to determine the impact. As PNPER will come to an end soon, ProMIFA will continue its work. It is expected that Agence Nationale de Promotion et de Garantie de Financement will receive US$1 million to abound the guarantee fund that will cover the financial institution risk on agricultural loan at 50 per cent.

Although the availability of de-risking instruments such as guarantees and insurances is increasing, there is limited awareness about their features, the capacity needed to partner and partnership mechanisms.

AAFORD, a new project in Ghana, offers to set up a dedicated platform with a specific objective of reducing the gap in the availability of affordable agricultural production loans for smallholders. The Blended Financing Facility (BFF) will simultaneously facilitate access to portfolio loan guarantee with the Ghana Incentive-based Risk Sharing System for Agricultural Lending for financial intermediaries, access to agricultural insurance protection with the Ghana Agricultural Insurance Pool) for smallholders and access to a structured output/commodity market with the Ghana Commodity Exchange. All of these systems are meant to reduce the overall credit risk for FIs. With all these financial de-risking mechanisms put in place, it is expected that BFF's onlending rates will be negotiated to make sure that the repayment burden on production loans for farmers is minimized, providing for reasonable returns on their production activity.

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5 LINKAGE BANKING AND FINANCIAL INCLUSION: FROM INFORMAL TO FORMAL FINANCIAL SYSTEMS

In countries or areas where the rural financial system is least advanced, poor smallholders need first and foremost safe deposit facilities for liquidity they need to keep aside for future use. This liquidity changes frequently from day to day owing to frequent payments and withdrawals. Poor farmers' most pressing need is a nearby bank that affords them easy and quick access to their money. This represents the first step towards getting them out of the informal system and into the formal financial system, from which they can expect more and better financial services. IFAD projects in such countries help local partner FIs to offer appropriate financial services, leveraging savings with the prospect of making credit available for the development of market-based agriculture. This is a gradual process through which every player, on both the demand and supply sides, needs to build capacity, change habits and establish trust. At village level, in the absence of commercial banks or MFIs, community-based FIs have become the bedrock of a strategy to reach out to rural farmers. This is appropriate in an environment where people have very little knowledge about financial management techniques such as cash management, helping them to maintain solvency and liquidity at all times. Different approaches have been pursued in the various countries concerned, depending on their situation and context.

SIERRA LEONE (RFCIP): EVOLVING FROM SHARE INTERMEDIATION

The general strategy has been to facilitate access to the financial system through grass-roots institutions, the FSAs. FSAs are non-regulated rural FIs providing a limited range of financial services to their shareholders, who own the institutions. They aim to establish locally accessible, locally owned and locally operated FIs. The concept of the FSAs, hinging entirely on share capital, is a short- to medium-term attempt to deal with deficient development and market failure of the financial sector in rural areas. The rural populace needs a variety of financial services, progressively more powerful but more complex to manage (for beneficiaries and FIs), including deposit, credit, transfer/payment and insurance. This starts with providing a facility to help them to manage their liquidity. An FSA is a very basic starting point for farmers to access financial services, as it is offers only intermediation of share capital and cannot intermediate deposits, for regulation reasons. As a result, the poor can save only the absolute minimum, and the FSAs cannot intermediate the excess liquidity needs of its members. As a result of the primary source of funds restricted to shareholders, and because human resources are limited, the capacity of FSAs is insufficient to satisfy the demand of the rural poor for instruments that are more sophisticated. At the end of RFCIP, only 30 per cent of FSA shareholders were able to access loans. The risk in Sierra Leone is that FSAs created under projects could be gradually phased out and disappear after the end of the support because they are not capable of offering what clients really need.

While maintaining grass-roots structure is essential to allow for safekeeping, daily liquidity management and microloans, RFCIP supported FSAs to establish connections with community banks[26] to offer proper saving solutions for farmers and give them access to credit instruments, based on deposit intermediation. By the end of the first phase of RFCIP, 11,131 shareholders had savings accounts, which accounted for 95.7 per cent of shareholders. More than 99 per cent of deposits in community banks were voluntary deposits. In 2013 alone, the project reported that US$1.2 million had been mobilized from shareholders (an increase of 115 per cent in one year).

With the ongoing RFCIP-II, the main focus is to strengthen the capacity of the FSPs in rural areas, FSAs and community banks, to increase their outreach and provide demand-driven services to rural communities, especially for agriculture. This entails a better linkage between FSAs and the formal financial sector, and ensures that pro-poor and farmer-friendly financial products are developed at the community bank level. FSAs are now able to borrow funds from the newly created Agriculture Finance Facility, thus increasing their ability to onlend to their members beyond the share capital. The main indicators measuring inclusion of small farmers into the financial system are shown in table 3.

[26] Community banks are formal FIs regulated by the central bank. They are located throughout the provincial districts of the country to stimulate rural communities to rebuild their lives through access to financial services. They are now offering the following products and services in rural areas: (i) deposits; (ii) remittances; (iii) payment systems; (iv) loans; (v) client financial education; and (vi) small business development.

TABLE 3: INDICATORS MEASURING INCLUSION OF SMALL FARMERS INTO THE FINANCIAL SYSTEM (RFCIP-II)

Indicator	Community banks	FSA	Total for December 2019	Total for December 2018	% increase from 2018 to 2019
Number of shareholders	45 407	109 513	154 920	142 001	9.10
Share capital (billion SLL)	7.82	21.64	29.46	24.77	18.90
Number of active depositors	101 051		101 051	91 855	10.00

NIGERIA (RUFIN): LEVERAGING SAVINGS AND CREDIT GROUPS

Savings and credit groups existed in rural communities even before RUFIN started. However, these were often formed only to attract grants, and became dormant thereafter. There was a legacy of unpaid loans by many groups. Savings culture was absent, and repayment culture was weak. The groups often lacked business, financial management and record-keeping skills. The combination of these factors generated the perception of high credit risk in rural lending. When RUFIN started there was a negligible linkage between financial operators and the rural groups in the project areas.

RUFIN focused on strengthening the existing active groups and revitalizing the dormant ones in rural communities. The financial linkage between the MFIs and groups was reinforced, with emphasis on savings linkage followed by the credit relationship. The groups were subjected to several rounds of training on financial management, record-keeping and entrepreneurship. Simultaneously, the FIs were trained on a range of topics including designing specific products, methodologies for profitable rural operations and credit officers trained in group formation.

On 30 September 2016, an estimated 75 per cent of the RUFIN mentored groups were linked to formal FIs. Cumulative savings were reported at NGN 16.2 billion from 710,753 voluntary savers (an increase of NGN 0.6 billion over the previous six months), and cumulative credit disbursed by FIs was almost NGN 31 billion (an increase of NGN 2.3 billion over the previous six months), showing a leveraging (multiplier) effect of almost 200 per cent.

MALI (PMR): SAVINGS AS A SOURCE OF CAPITAL FOR FINANCIAL INSTITUTIONS

The general strategy of PMR as regards a inclusion of poor farmers was to encourage savings and facilitate the savings mobilized to be deposited with local FIs. With the help of trained agents, the total amount collected reached more than XOF 400 million, which amounts to 36 per cent of the project target. However, despite offering appealing terms for savers, it turned out that the amount deposited by farmers was a small fraction of the total amount collected in the saving community groups. The main part remained in the group savings box, or even in farmers' pockets. The first reason for such anti-banking behaviour is farmers' need to have maximum flexibility over access to cash. Poor smallholders (many of them uneducated) just cannot afford to put their spare resources into a bank account if they have to complete and sign/thumbprint a lot of forms and sometimes pay fees to make deposits and/or withdrawals.

Easy and fast access to deposits is required at all times in case there is sudden or unexpected need for cash. From this perspective, community groups appear more suitable for smallholders than a formal bank account. Another reason is related to the conditions offered for credit, which remains too expensive and ill-adjusted to farmers' needs (size, maturity, grace period, matching repayments with cash flows, etc.). Consequently, the intermediation effect does not happen. PMR demonstrated farmers' appetite for savings and credit services. Traditional savings practices undeniably constitute an appealing source of capital to be mobilized by partner FIs, as this helps to reduce the risk of agriculture loans. However, mobilizing savings does not necessarily translate into farmers benefiting from better access to appropriate loans. Possible solutions to help remove the constraint include increasing partner FI outreach through setting up permanent/semi-permanent or mobile branches at grass-roots level or promoting digital solutions (digital financial systems), facilitating an external source of cheap/concessional capital to reduce partner FI refinancing costs and engaging technical assistance to further develop farmers' financial education and management skills, including in credit negotiation and management, and insurance.

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6 ACCESS TO LOANS AND THE IMPORTANCE OF ASSOCIATE NON-FINANCIAL SERVICES SUPPORTING PRODUCTIVE INVESTMENTS

A loan or credit is the main promoted financial instrument used throughout IFAD's portfolio to support the development of agriculture. Trapped in a vicious cycle of low productivity, low revenue and low/negative margins,[27] poor smallholders need to invest in more high-yielding production activities to break up the cycle and develop their investment activities that lead to livelihood improvement. Access to financial capital is critical, close behind access to appropriate and relevant information, knowledge and viable product outlet markets. The first strategic intention of IFAD projects with an inclusive finance activity is to provide financial capital while encouraging the logic of investment in farmers' skills and capacity development. The key assumption is that productive investment should be prepared in a way that removes farmers' constraints towards increased revenues and margins to be used for self-financing. Consequently, the first move was to directly cofinance investments through the use of matching grants.

27 If the selling price does not enable the full cost of production to be recovered, then, when subsidies are removed and the farmer has to assume the full production costs, margins will be negative for a majority of smallholders.

With such instruments, the approach is to mobilize beneficiaries' contribution to ensure ownership of and commitment to their productive initiative.

A MULTIPLICITY OF DIFFERENT INNOVATIONS AND MODELS EXIST IN WEST AND CENTRAL AFRICA, YET RESULTS REMAIN MIXED

With concerns for sustainability, different financing models (see earlier section on IFAD at the frontiers of financial innovations) have been progressively developed and tested that include the involvement of FIs with a prospect of ensuring long-term financing solutions for smallholders beyond the project intervention. Experience indicates that a grant to leverage clients' equity can make credit more affordable by reducing the amount borrowed at commercial rates, and the FIs are more willing to lend because risk of exposure related to larger amounts has been limited. In turn, FIs are more willing to extend further loans once a client has repaid an initial loan on commercial terms. PASPRU in Burkina Faso operated the Rural Microenterprise Development Fund (FODEMER), which is a classical matching grant fund with a twist towards innovation. With FODEMER, the grant scheme was designed to favour specific targeted beneficiaries with an economic project that demonstrated profitability and potential for job creation. The personal contribution of promoters was set at 5–20 per cent for entrepreneur candidates, depending on the nature of the investment, for projects capped at XOF 5 million generally. For innovative projects, the contribution was reduced from 5 to 1 per cent of the total budget.

This approach avoids the distortions that have arisen, for example, in Ghana with some support programmes that offset high interest rates through subsidized, directed credit. With REP in Ghana, the matching grant package is a shared funding arrangement of an FI loan component, a grant element from the project and an equity contribution from the client. The matching grant element is initially 30 per cent of the total cost of the equipment to be purchased, leveraged on the client's equity contribution of at least 10 per cent, while the partner FI component is 60 per cent. The level of the tripartite cost-sharing financing mechanism is largely in this range 40:10:50 (matching grant, equity and loan) across the IFAD portfolio. With PACER in Benin, it was also 40:10:50. The personal contribution (equity) of the promoter is rarely below 5 per cent, as is the case in ProMIFA Togo, where the ratio is 45:05:50 for farm investments. However, equity contribution could be greater to reduce the loan burden on smallholder borrowers.

Throughout the IFAD portfolio in WCA, a number of models have emerged depending on the use and place of grant and loan in the mix of financing. These are shown in table 4 (see also the matrix of spatial deployment of the financing schemes in figure 3). In each model, the financing scheme is intended to target smallholders and entrepreneurs who are able to engage some of their own resources to cofinance a development or business plan. The business plan is prepared with the help of technical assistance from a BDS provider, which will ensure that the project generates enough returns on investment to guarantee repayment of the loan. In this regard, the need to sell the smallholder product to an identified/known viable market[28] is a key criteria for loan repayment assessment.

28 A viable market is described as one that pays a price for the product that covers its full costs (production, transportation, marketing and financial) and leaves the smallholder producer with a positive margin that incentivizes them to stay in their agribusiness venture sustainably.

TABLE 4: SOME OF THE MODELS USED THROUGHOUT IFAD'S WCA PORTFOLIO OF RURAL FINANCING SCHEMES

Model	Use of grant (project)	Use of loan (FI)	Projects
Classic matching grant	Direct contribution to the benefit of farmers (one cycle only)	Possibility for farmers to finance own contribution with a loan	PAPAM in Mali initial design, PADER-G in Chad initial design, PASPRU in Burkina Faso
Classic tripartite cost-sharing financing mechanism	Direct contribution to the benefit of farmers (one cycle only or degressive commitment)	Compulsory loan along with the grant from the project	REP in Ghana, PEA-Youth in Cameroon, PACER in Benin, PROPACOM in Côte d'Ivoire
Tripartite cost-sharing financing mechanism with term deposit for beneficiaries	Used as term deposit (cash collateral) to guarantee the loan. The grant, subsidy or term deposit is then released to the beneficiary upon their repayment of the full interest-bearing loan amount.	Compulsory loan along with the grant from the project	FIER and INCLUSIF in Mali
Tripartite cost-sharing financing mechanism with term deposit for recycling	No grant to farmers. However, a term deposit is used as a refinancing fund to leverage FIs' resources by a multiplier of between 200 and 400 per cent. The term deposit is recycled through the partner FI to various beneficiaries.	Integral financing on credit but on negotiated terms	ProMIFA in Togo

Source: PROPACOM, the Support to Agricultural Production and Marketing Project.

The results from the three projects reviewed that use tripartite cost-sharing financial instruments are quite mixed. With FIER in Mali, beneficiaries investing in livestock fattening obtained a higher return on investment than their peers who invested in vegetable production. Both INCLUSIF in Mali that started operations in 2019 and had its first supervision in 2020 and ProMIFA Togo (with a slight tweak on the term deposit) that started operations in 2020, have no results yet to show. Overall, it is not yet possible to make an informed conclusion from the sample that is promoting the schemes. However, the schemes are being hailed for contributing to (i) unleashing access to private credit for smallholders/entrepreneurs; (ii) realizing better repayment rates for FIs and (iii) improving beneficiary incomes and consequently their livelihoods.

Regarding associate non-financial services, projects that are structured around comprehensive training and capacity-building processes (e.g. understanding cash flows, business plan preparation and credit management, and GAPs with climate-resilient interventions) achieve better results, especially those targeting youth entrepreneurs. In the case of PEA-Youth in Cameroon, FIER in Mali, Integrated Agribusiness hub (IABH) in Nigeria,[29] the Livelihood Improvement Family Enterprises Project in the Niger Delta of Nigeria and PNPER in Togo, among others, which support young people committing to

[29] Integrated Agribusiness hub (IABH) is a Strategy and Knowledge Department (SKD) grant-funded rural youth employment opportunities project that supports integrated agribusiness hubs (youth incubation) in Nigeria.

rural entrepreneurship, access to credit is indeed the logical outcome of a well-rounded training and qualifying process. For example, the FIER project is looking at supporting the creation or consolidation of 11,550 IGAs and 4,000 rural microenterprises (MERs), along with 50 economic clusters. From May 2018 to April 2020, the number of young people financed has soared, with sharp increases of 276 per cent for IGAs (from 867 to 3,262) and 461 per cent for MERs (from 55 to 309). However, growth is unevenly spread over the different targeted categories of microprojects, with IGAs attracting many more candidates than the other two types (existing and new MERs). Consequently, the main objectives of the projects in terms of the number of youth entrepreneurs accessing credit were adjusted in 2019 to reflect this reality (to support 14,000 IGAs and 1,500 MERs). The same shift towards favouring young candidates is observed in PNPER in Togo, where only 4 existing rural SMEs/cooperatives, compared with a target of 250 have been financed just six months before completion. In Burkina Faso, FODEMER, promoted by the PASPRU project, managed to provide financing to only 386 MERs compared with a target of 2,400 (16 per cent).

The Support to Agricultural Production and Marketing Project (PROPACOM) in Côte d'Ivoire achieved poor results as regards the promotion of FIs to provide financial services to smallholders. From January 2016 to March 2020, only XOF 131 million (45 per cent) of credit, compared with a target of XOF 291 million, had been provided. Of this XOF 131 million, roughly XOF 63 million went to 20 FOs with a recorded repayment rate of only 55 per cent. In addition, XOF 62 million was granted to 300 individual borrowers who have repaid only 67 per cent of the amount borrowed.

Finally, in the case of PACER in Benin, only 63.2 per cent of credit requested by local SMEs was awarded. One reason for this underachievement is the reluctance of partner FIs to commit capital to finance the target SMEs, despite their engagement in the tripartite scheme. Partner FIs consider that, even with assistance, entrepreneur candidates remained too weak in their capacities to manage investments financed on credit. Furthermore, this credit request rate is probably overestimated, considering that a number of participating FIs unilaterally retained a significant part of the subsidy granted to beneficiaries (up to 50 per cent) as a security deposit (cash collateral) that served as a guarantee. This constitutes a significant amount of resources that smallholders cannot access to invest in extending their business activities.

ANALYSIS OF THE LIMITATIONS AND CHALLENGES FOR FINANCING SCHEMES

After the review of the WCA rural finance project portfolio with regards to design and operationalization of the financing schemes and loan repayment experiences, a number of limitations and challenges have been identified to explain the results.

Perceived risks in smallholder agricultural activities remain a strong deterrent to their financing

First and foremost, the de-risking schemes put in place by IFAD projects along agricultural value chains reportedly seem to insufficiently reassure FIs, as they remain unwilling to channel financing to agriculture. Some partner FIs (in Ghana, for example) have pointed out that the type of financial de-risking schemes deployed

by IFAD-supported projects give them only a level of comfort to consider lending to the smallholder sector. They argue that the smallholder-based financial de-risking schemes do not translate into reasonable returns on investments compared with other less risky investment alternatives available to them. Although partial credit guarantee funds can be designed to cover some loan losses and insurance to cover insurable risks exogenous to the smallholder (weather, yield, and pests and diseases), that is, if there is a market, partner FIs continue to perceive high risks associated with endogenous factors (low borrower capacities) and high transaction costs. The last two risk factors cannot be covered by insurance. In addition to these formal financial de-risking instruments, the risk-averse partner FIs have continued to demand cash and/or other moveable and immoveable valuable assets and/or sureties for collateral, which potential smallholder borrowers may not have.

Smallholder producers, for reasons outside their control, can experience delays in the delivery of inputs or insufficient rainfall that reduce expected yields or, alternatively, produce a glut/bumper harvest that causes a drop in prices (negative income effect of overproduction in unstructured markets). These issues can cause cash flow difficulties that may lead smallholder borrowers to default on repaying their loans in accordance with the agreed plan. This was the case with PROPACOM in Côte d'Ivoire, PNPER in Togo and RFCIP-II in Sierra Leone. With the last, despite heavy support from the project (training, technical coaching and a refinancing line), partner FIs have mainly disregarded activities in agriculture. In Mali, PMR hit excellent repayment rates. However, it appeared that the targeted sectors did not include smallholder agriculture (they were mainly around petty trade). Although smallholder producers are deemed creditworthy with the support and/or guarantee provided by projects, it is likely that the returns on investment on this customer segment[30] remain insufficient to balance high transaction costs. It is possible that partner FIs would prefer to commit their resources to other segments with less risk and better profitability.

It is widely acknowledged that the agricultural sector requires a dedicated or tailored credit instrument with regards to size, maturity and cash flow. Financing working capital is not as challenging as financing investments and other long-term assets. The current financial instruments miss out on aligning the repayment scheme on the actual cash flow pattern of agriculture activities. In this regard, many IFAD projects in the portfolio include the development and testing of new credit products that are well suited to agriculture and better adapted to smallholders' needs, capacities and production calendars. For example, in Côte d'Ivoire, the IFAD-supported Agri-Business Capital (ABC) Fund provided a working capital loan to Cooperative Allah Bekele de Fresco,[31] an FO serving cocoa communities in the PROPACOM, PROPACOM Ouest and the Agricultural Value Chains Development Programme project areas.

30 The production segment along the typical smallholder agricultural value chain has challenges in attracting financing because of the inherent risks in the segment.

31 The IFAD-supported ABC Fund is an impact investment fund that seeks to invest, to catalyse blended capital and to mobilize technical assistance to be deployed to underserved agribusiness segments. The ABC Fund was launched in February 2019 but only approved its first investment later in the same year. The ABC Fund has a global mandate with an initial focus on the African, Caribbean and Pacific region. Bamboo Capital Partners manages the ABC Fund. The ABC Fund is institutionally independent from IFAD. It provided its first investment (a one-year working capital loan of EUR 800,000 approved in October 2019) to the Côte d'Ivoire-based cooperative to finance the purchase of raw cocoa from its members for processing and export. The first loan has been reimbursed in full (100 per cent reimbursement rate) and is renewable yearly.

Some of the other new instruments include warehouse receipt financing and microleasing. However, despite reported promising qualitative results, very few projects transitioned to scaling up such new instruments. The most interesting experience was completed with PMR and then PAPAM in Mali. At closure, the beneficiaries expressed satisfaction with the two instruments, which are said to have met their cash and term loan requirements. For partner FIs, the tests provided an opportunity to diversify their financial services to farmers. Yet reports did not provide quantitative measures of the impact. From a farmer's perspective, a number of improvements are needed (especially regarding amounts and maturity) before these instruments can be scaled up.

High interest rates continue to discourage smallholders with low margins (returns on investment) from accessing and using agricultural loans

In every project, the financial instruments are designed to respond to the local situation of poor smallholders and rural entrepreneurs. However, most objectives, in terms of outreach or break-even volumes are not reached, although there is evidence of demand from the field, as in the case of REP in Ghana, where the refinancing facility is facing low uptake by clients of the programme. High interest rates on loans are one of the major challenges facing clients seeking access to finance, and affect their ability to expand their activities and generate revenue with reasonable margins to use for improving their livelihoods. The same was observed in Mali with PMR. As already mentioned in the previous section, discussing risks, a further explanation would be that high interest rates are caused by the high costs and risks experienced by partner FIs, with the three most prominent ones being transaction cost, the cost of capital and credit/default risks. In an attempt to de-risk the financing scheme from the demand side, for the most part, the projects only address one or two of the associate non-financial services. For example, the projects invest in farmers' business development capacities to reduce the credit risk and increase partner FI outreach, while the cost of capital, which is dictated by central banks, remains high. For smallholders and entrepreneurs with small-scale activities and low profitability, the proposed financing costs remain prohibitive. Across the portfolio, the reported average interest rate on credit is rarely below 20 per cent per annum.

High interest rates on loans are one of the major challenges facing clients seeking access to finance, and affect their ability to expand their activities and generate revenue.

The search for an affordable interest rate is a key factor in developing financial services in rural areas. An affordable interest rate should be a win–win for (i) smallholder borrowers who need to reduce their total cost of production (which includes the cost of loans); and (ii) partner FIs who need to cover their cost of capital, and risks, to ensure reasonable returns on investment for their shareholders/investors. An affordable rate would then be defined as a rate that is competitive for farmers, allowing them to thrive and repay their loans and to meet their other financial needs, including savings, from the funded business cash flow with ease, while ensuring a reasonable remuneration for partner FIs to maintain and expand their smallholder financing business activities sustainably.

Increasingly, projects are using new complementing instruments with the potential to reduce cost and risk for partner FIs, while facilitating lower rates for farmers. One is a refinancing fund that offers better refinancing conditions to partner FIs, leading to a lower cost of capital. As part of PADMIR in Cameroon, the grant component of the

matching grant scheme was replaced by a midterm refinancing line of credit for partner FIs with the prospect of reducing the lending rate to final borrowers and consequently increasing the size of the portfolio. Subsidization was thus replaced by lending resources. Another instrument that is gaining traction is the term deposit instrument, which can be used as cash collateral and/or as a cash guarantee fund[32] that would partially contribute to the resources for onlending, reducing the risk of exposure if the full credit to the target clients were to be covered from partner FI resources only. In Cameroon, PEA-Youth implemented these two instruments in 2020 in partnership with the commercial bank Société Générale de Banque du Cameroun and is expecting to see the initial impact over the coming months.

Along with a direct financing instrument for beneficiaries, these two instruments would constitute a comprehensive package of complementary mechanisms that may become the prominent model for future projects as regards the promotion of financial services to small farmers. In the case of the recently ratified AAFORD in Ghana, the overarching architecture of the financing scheme is based on such a package. It will establish a BFF through the Bank of Ghana and the ARB Apex Bank to provide wholesale funds on concessional terms to partner FIs to onlend to smallholders, and cost-sharing grants (results based) that enable FOs to afford risk mitigation instruments such as partial guarantee coverage and insurance. In addition, the new Livelihood Improvement Family Enterprises Project in the Niger Delta of Nigeria, which is just starting operations, is expected to provide capital to the NIRSAL scheme for a reinforced guarantee offering to partner FIs.

Technical assistance does not always improve the quality and bankability of investment plans prepared and submitted for financing

In the process of preparing the investment plans to be financed, establishing the business case is essential to securing the capacity of farmers/entrepreneurs to repay their loan and develop their business activities. This preparatory analysis touches on the quality of the plan itself, but also on the adequacy of the smallholders' capacities to manage their microprojects. A smallholders' business mindset, as well as their ability to manage and develop a commercial activity, even a small one, is as important as the prospect of profitability in determining whether or not to finance the plan. All too often, BDSs do not conduct a detailed review of the candidate profile to ensure that they have what it takes to fully realize their investment plan and develop their activities for optimum revenue generation. At the completion of PACER in Benin, the issue of lack of candidate profiling by BDSs was identified as the hidden cause of poor achievement in the financing of SMEs' investments. The PACER project completion mission found that, despite the technical assistance provided by the project, entrepreneurs' business skills were not taken into consideration to any great extent when screening the microprojects.

For PACER, too, the limited capacities of the supporting BDSs (e.g. the lack of technical assistance for farmers for the preparation of the microprojects) partially explains the poor quality of the investment plans submitted. It is reported that the

32 The cash guarantee fund implied here is domiciled with each PFI and is used to partially cofinance investment projects, reducing FIs' exposure to total credit risk. This should not be confused with the partial credit guarantee fund, which is managed by a dedicated professional fund manager and serves to partially cover loan losses due to repayment defaults in the FI's credit portfolio.

training proposed to the candidates was quite generic, with little consideration for their real needs. With no mandated periodic performance assessments of the BDSs by the project, the participating BDSs remained in place throughout project implementation, despite their unacceptably poor achievements. They were allowed to continue to assist in the preparation of investment plans for years despite providing little value-added for the smallholders (entrepreneurs). The same can be said of PAPAM in Mali, where the quality of the proposed projects was highly dependent on the ability of the BDS support system to guide smallholders (entrepreneurs) towards a realistic project in tune with their skills and capacities. This was necessary to ensure that the need for reasonable returns on investments was realistically taken into account. Beneficiaries all too often just seek to be awarded grants without giving serious consideration to the profitability and sustainability of their activities. It is precisely the role of the technical assistance to screen candidates and projects to avoid such pitfalls.

The weakness of the investment plans submitted may also affect the prospect of steady development in the medium term, especially when assistance over time results in a significant standardization of microprojects. Standardization of investment plans occurred in FIER in Mali, where BDSs appeared to give preference to quantity over quality. Such a preference could have been a result of the methods that the BDSs used to reach their quota of investments for financing, given that quantity and not quality constituted the base of the BDSs' remuneration. This leads to a drastic reduction in the chance of survival for small fledgling ventures.

The recommendation often made to resolve such constraints is to get partner FIs and their clients engaged at a very early stage through stakeholder consultation platforms for streamlining and processing of investment plans for financing. The aim of FI participation at this stage is to make sure the BDSs understand the need to assess risk profile and potential profitability. However, significant work remains to be done to help transfer responsibilities to the local partner FI staff and to give them the capacity to assume this technical assistance role, while keeping operational costs as low as possible to avoid eroding profitability. Some FIs partnering with ProMIFA Togo, under a technical assistance arrangement through the Food and Agriculture Organization, are beginning to dedicate budgets and seek approvals from their boards to finance their participation in developing and vetting investment plans for their market-oriented smallholders.

On another level, access to viable markets, and making sure that farmers/entrepreneurs are well connected to those markets to secure reasonable prices and increased revenues, is essential. Accessing viable markets ensures that borrowers fetch reasonable prices that will get them the return on investment they need to meet loan repayment requirements. This aspect of the portfolio has become increasingly well covered over time. The issue is illustrated by the case of PROPACOM in Côte d'Ivoire, where many microprojects failed, as farmers struggled to find a market to monetize their surpluses, which affected their ability to repay their loans to the partner FIs. Most recently, for a number of new projects, the FOs' capacity to establish business relationships with downstream private partners has become a key criterion to give farmers access to financial services. This is, for example, the case for INCLUSIF in Mali, the National Agricultural Land and Water Management Development Project and the Resilience of Organizations for Transformative Smallholder Agriculture Programme in Gambia, the Agricultural Value Chains Development Programme in Côte d'Ivoire, the Agricultural Value Chains Promotion Project (PAPFA) and the Agricultural Value Chains Support

Project in the Southwest, Hauts-Bassins, Cascades and Boucle du Mouhoun Regions in Burkina Faso, AAFORD in Ghana and PADAAM in Benin. For these projects, the matching grant financial instrument hinges on the 4Ps approach, for which a common investment plan is prepared between producers and buyers as a way to give life to a strong and sustainable productive alliance and leverage financing from the private sector.

Another important approach to securing access to market for farmers is the promotion of value chain financing in some projects. The goal is to support FOs' inclusion in value chains through conditioning financial support to partnerships with potential offtakers. STAR-P in Liberia, which is only just starting, is aimed explicitly at leveraging funding to facilitate productive links between smallholders and agribusinesses, with a specific focus on aggregation schemes and outgrower alliances. In addition, VCDP in Nigeria has developed a robust partnership with large private agroprocessing firms[33] operating in the country, to enhance the capacity of smallholders and young people to improve production and productivity. Through this partnership, VCDP has developed an innovative public–private–producer platform (the Commodity Alliance Forum [CAF])[34] that brings together all the key stakeholders, including the government, the private sector, FIs and farmers, to discuss and pursue collectively their economic interests. Chaired by an offtaker with a lead farmer group member as co-chair, the CAF platform serves first and foremost as a market place for transactions, but also as a forum for sharing and scaling up best practices in value chain development in Nigeria. The Nigeria VCDP–CAF value chain financing model involves in-kind credit from offtakers to their smallholders, with repayments made also in-kind at harvest. So far, this model has yielded the best repayment rates (over 90 per cent) in the region, with payment defaults traced to acceptable unavoidable factors. Many of those defaults are deferred for repayment at the next harvest season, keeping the producer–offtaker partnership strong and beneficial to both parties.

Another approach to securing access to market for farmers is the promotion of value chain financing to support partnerships with offtakers.

Beneficiary contributions (cash collateral) mobilized on low or no interest may be unethical and the root cause of poor performance

Most of the portfolio projects report that beneficiaries are always struggling to mobilize their personal/matching contribution (never more than 10 per cent of their financial needs for their business plans), as it is a requirement to access and benefit from matching grant schemes. Matching contributions from beneficiaries have always been a constraint to expanding access to financial services for poor rural people. Considering that this requirement is at the core of the matching grant scheme with a view to promoting ownership and responsibility, this limitation would seem to be a serious pitfall. In the case of PEA-Youth in Cameroon and PAPAM in Mali, the projects had to make some adjustments and ended up validating contribution in-kind on the part of the beneficiaries to fix the issue.

The same was observed in PROPACOM and PROPACOM Ouest in Côte d'Ivoire, both of which experienced a downturn in FO interest for financing productive projects

33 Comprising Olam, Stallion Rice, Onyx Rice and Josan Rice.

34 The CAF and VCDP partnership is designed to provide targeted smallholder rice farmers with access to a reliable and profitable market for their produce, and in turn stimulate farm-level productive investments. The partnership leverages commercial relationships and market experience to remove pricing distortions due to cyclical glut (Concordia 2019 P3 Impact Award finalist).

with a matching grant. Again, the contribution level (10 per cent) was said to be too high. The lesson learned from this is that access to credit must be promoted through a mechanism that is realistic considering what farmers can afford sustainably. Overly demanding conditions will inevitably lead to farmers refusing to participate or taking too much risk on their disposable resources. As with FIER in Mali or GASIP in Ghana, it appears that requesting smallholders to mobilize their scarce resources or save money to a certain level before being considered for a grant/credit limits farmers' access to financial services.

The unethical issue sets in when partner FIs require beneficiaries to save but do not pay any interest on the savings. Some partner FIs go as far as charging account management fees on the beneficiary's savings account rather than paying any interest. Even more serious is the fact that the savings are used to capitalize the partner FIs, which in turn give out loans composed of the savings back to the smallholders at unaffordable rates (loan rates that are sometimes 500 per cent more than savings rates). This is where it becomes clear that the accrual of benefits inadvertently shifts from the poor smallholder (IFAD's target) to the intermediating partner FIs. In the 2020 supervision report, partner FIs in Mali's FIER and INCLUSIF were noted to be enriching themselves at the expense of IFAD's target group of poor rural people. The unethical issue is resolvable through a representative microfinance policy that stresses negotiating win–win loan and savings interest rates.

To incentivize smallholders, a number of projects have reviewed their matching grant fund conditions and lowered the personal/matching contribution requirement. Regarding REP in Ghana, the 2019 supervision mission supported a request for an increase in the percentage of grant to 50 per cent and advocated that the requirement for a bank loan as a condition to benefit from the matching grant fund be de-emphasized. This move was intended to allow clients to find alternative sources of funds to meet the matching contributions. This was also the case for PACER in Benin, where overestimation of farmers' financial capacities led to weak uptake of the facilities. The personal/matching contribution was eventually reduced and the grant increased.

Dependence on grants limits the knock-on effect on access to and use of credit

The review of the project portfolio showed that the chase for grant money is often the main driver of engagement of smallholders in many financing models. In many cases, a "deadweight effect" was noticed among farmers, in that they sized their microprojects with the clear intention of capturing the grant component. They had little interest in preparing a solid and bankable investment plan that would have taken them to the next level. This is obvious when there is a clear discrepancy between the size and horizon of the investment and the outlook for profitability. The perverse effect has been seen, for example, in PEA-Youth in Cameroon, where many youth candidates completed their courses up to being awarded the "start-up kit" and thereafter stopped following the logical path of business development once the need for credit arose.

In Mali, despite the repayment rate remaining high at 98 per cent on average (2018), the FIER project recorded that few entrepreneurs kept using financial services from partner FIs after full repayment of the loan and the release of the grant that was initially used to guarantee the loan. Instead of using the grant released to leverage a second round

of credit to finance new businesses, many young smallholders used it as working capital. This may be detrimental to the prospect of building sustainable relationships between microenterprises and local partner FIs that would ensure access to financial services to entrepreneurs beyond the project lifespan. For partner FIs, the challenge of building trust with entrepreneurs could translate into difficulties in broadening and maintaining their client base to secure significant business activities for an early break-even point. That is what happened to Caisse d'Epargne et de Crédit in PADER-G Chad. Despite promising operational results, its activities managed to cover only a minimal part of its costs owing to the small size of its loan portfolio. The partner FI eventually fell short on breaking, even at the project completion.

Developing partner FI capacities to sustainable levels (operational self-sufficiency and/or financial self-sufficiency) as part of financial sector development takes time and may not be IFAD's direct responsibility, given its target group of poor rural people

Experience shows that improving partner FIs' technical and managerial capacities takes time. Despite heavy support that is unavoidably provided to partner FIs in every project in the IFAD portfolio (training loan officers on the agriculture sector, risk management, control and supervision systems, etc.), deficiencies and weaknesses remain. This may be a challenge when it comes to developing new financial schemes tailored to poor farmers. In the case of PACER in Benin, the number of participating FIs involved in operating its financial scheme surpassed the objective of the project (seven against five in the design). However, the partner FIs generally fell short of covering the financial needs of the beneficiaries, with an achievement rate of only 8 per cent of the objective despite an intensive capacity-building programme and access to a refinancing fund. With only 71 per cent of the demand approved over the course of PACER, the limiting factor was identified as partner FI inability or lack of adequate capacities to manage and expand the business activities. Again, the results could have been better if PFIs were involved early in the process of assisting entrepreneurs to prepare their investment plans. However, the required skills still do not exist among the local partner FI teams.

In Cameroon, PEA-Youth is still pushing to boost access to productive credit for youth entrepreneurs. In that regard, it has identified the technical areas where partner FIs remain weak, with the prospect of further strengthening their capacities. These areas touch on the scrutiny of the agriculture loan requests, management of the payment schedules and sensitization on credit management, among other things.

The newest innovative approach is using term deposits, issuing certificates of deposit for capitalization

Approved in 2018 and becoming effective in 2019, ProMIFA in Togo is part of the last generation of projects in WCA with a focus on smallholders' access to and use of financial services. Its main objective is to assist the government of Togo in the operationalization of the agricultural financial de-risking mechanism, the Mécanisme incitatif de financement agricole fondé sur le partage de risque (MIFA). MIFA is a comprehensive mechanism for easing access to financing to the benefit of all actors in the agricultural sector. It is aimed at (i) reducing the specific risks associated with activities in agriculture; (ii) leveraging private capital by a multiplier of up to 400 per cent from a

project grant-funded term deposit (certificate of deposit) scheme; and (iii) reducing the financial cost for value chain players, especially smallholders.

The main financial instrument of ProMIFA is a line of credit or a fund (Facilité de Financement par le Développement Agricole [FFDA]) that serves as a refinancing facility to channel liquidity to smallholders /entrepreneurs through partner FIs. FFDA will work as a tripartite cost-sharing financing mechanism with the grant component mobilized from the project, a compulsory contribution from the smallholder and a loan component from partner FIs. The project-smallholder-partner FI ratio for contributing resources to the tripartite mechanism is 40:10:50 or 45:5:50, depending on whether the smallholder is looking for investment or working capital. Drawing on the advice of the government of Togo through MIFA, whereby subsidized credit is discouraged, the grant intended for ProMIFA will be structured into a term deposit placed in a partner FI. The grant will not to be released to the beneficiary but will be used as a revolving financial resource for the participating FI. Resources for the FFDA will be deposited in a fixed-term account (term deposit) bearing a negotiated interest rate and a certificate of deposit issued to ProMIFA as owner of the account. The term deposit will be in the books of the partner FIs, with a view to blending it with their own and other private capital to increase their lending capital at a cheaper, blended interest rate. The ProMIFA scheme is depicted in table 5.

TABLE 5: DESCRIPTION OF THE PROMIFA FINANCIAL SCHEME

Short-term loan (≤ 1 year)			Midterm investment (1–3 years)		
FFDA	FI	Beneficiary	FFDA	FI	Beneficiary
95% blended lending capital (45% of resources from FFDA and 50% of own resources)		5% compulsory contribution	90% blended lending capital (40% of resources from FFDA and 50% of own resources)		10% compulsory contribution

With MIFA, the smallholder's (entrepreneur's) investment plan is almost entirely financed on credit at a negotiated interest rate. This new approach comes as a solution to the diverse issues and constraints listed previously, in particular the dependence on subsidies and the difficulty in persuading farmers and entrepreneurs to mobilize their scarce liquidity in the risky smallholder sector. While fixing the issue of access to liquidity for partner FIs, this mechanism is expected to have a strong leveraging effect on partner FIs' capital. With MIFA, responsibility for engaging the financing now lies fully with the partner FIs, which implies that they need to commit to supporting smallholder entrepreneurs, replacing external operators. This should encourage and support their growth and professionalization. The ProMIFA project will make sure to provide all the technical assistance needed to enhance participating actors' capacities.

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7 CONCLUSION AND RECOMMENDATIONS

This paper has looked at the various financing schemes deployed through 36 WCA projects with rural financing activity from 2009 to 2020. The 10-year period is covered by IFAD's current RFP and its Decision Tools for Rural Finance. The financing schemes reviewed have evolved through (i) simple grants for microcredits, some of which were used to capitalize weak partner FIs and FOs in liquidity crises and (ii) direct credits to finance smallholder subsistent agriculture, to (iii) the more sophisticated tripartite cost-sharing financing mechanisms, delivered to smallholder operators. The more sophisticated financing schemes, comprising financial instruments, tools, products and their associate non-financial services, combined in innovative ways, are deployed to semi-structured and structured pro-poor market-oriented smallholder agribusinesses. Different systems and platforms used to deliver the financial instruments were inferred, including decentralized/community-based systems and commercial FIs (MFIs and banks) using digital financial systems.

Data and information analysed came mainly from project documents (project design reports, supervision and implementation support, mid-term reviews and project completion reports). No data and information came from partner FIs, which means that no financial performance review of the instruments could be done at the level of the partner FIs. This is a limitation of this report, but can be addressed by planning and conducting a dedicated study on the partner FIs.

The ability of this review to establish well-grounded lessons is quite limited because the WCA rural finance portfolio is "young", as many of the projects are still under implementation. However, a number of interesting insights have been unveiled that can be used to guide a more pointed forward-looking conclusion.

The results and performances achieved thus far by smallholders accessing and using the various financing schemes are different for those projects that have closed and for those ongoing projects that have attained a reasonable level of maturity in their implementation and have generated some lessons. The review has found that the factors that determine the level of impact of the schemes for smallholders are numerous and that a systemic approach remains relevant to deeper analysis of the constraints.

As a whole, despite IFAD's investment and support over the last decade, the majority of rural financing schemes across WCA have not yet reached a level of maturity sufficient to be characterized as sustainable. The spatial distribution of the diverse innovative financing schemes as yet shows no discernible trend (figure 3). This could mean that no winners or prototypes to draw upon in WCA have yet emerged. However, two schemes are promising: (i) the more sophisticated tripartite cost-sharing financing mechanisms with in-kind matching contributions; and (ii) value chain financing with cashless/in-kind credit and repayment systems. Both schemes must take the value chain approach, anchoring on offtaker, outgrower or contract farming partnership arrangements with smallholders participating proportionately. Important work remains to be done towards increasing financial inclusivity and increasing impact for the benefit of poor rural people. Further support, as part of a streamlined approach, is needed.

The newly promoted de-risking tools have the potential to reassure partner FIs, but more evidence is needed of their effectiveness.

Going forward, it appears critical to establish schemes that reduce the cost of credit for smallholders as a way to boost their access to finance and its impact on their livelihood and well-being. Taking into consideration the fact that the current margins on sales are extremely thin (and sometimes negative under serious subsidies), smallholders simply cannot afford to pay for costly financial services. Uptake of financial services will increase only when these services are adjusted to their needs, at a cost that will allow them to earn a living sustainably from farming. The newly promoted de-risking tools have the potential to reassure partner FIs, reducing the credit risk for farmers and thus the cost of credit. However, evidence of their effectiveness in the rural context is not yet available.

Another aspect for future consideration is that the cost of credit for smallholders could be lowered through partner FIs having access to cheaper capital for their refinancing solutions. The different approaches used to increase access to liquidity have shown interesting results so far. However, not every partner FI has the capacities and skills to manage a financing line through quite a complex scheme that seeks to secure the return on investment for creditors, while also ensuring reasonable economic and financial returns on investment of their smallholder clientele. As a consequence, IFAD should maintain the good industry practice of applying the value chain approach, seeking a viable product market first and conducting the screening of the most capable institutions second, while continuing to invest in capacity-building on both the demand and supply sides proportionately to increase access.

Furthermore, increasingly, IFAD-funded projects have shown that the use of direct subsidization for farmers may be effective only in specific situations, for specific uses, and on specific targets (young people, women, nutrition and climate change management). Otherwise, the use of subsidies to try to increase uptake of interest-bearing financial instruments, tools and products and build relationships with partner FIs has not achieved desired results, highlighting that the incentive effect of subsidies crowding in

private capital that was initially envisaged has not occurred and should no longer be encouraged or supported.

Moreover, technical assistance with promotion of GAPs, in addition to the other associate non-financial services, remains critical to ensuring an increase in yield and production in a sustainable manner for smallholders. However, this review has shown that projects would also have to include capacity-building on themes related to access to viable markets, as pushing for production surpluses without increased capacity to sell cannot constitute a sustainable solution for access to external financing. Facilitating partnerships with offtakers has great potential through ensuring that farmers would have access to viable and reliable markets, while reducing credit risks for partner FIs. This approach to genuinely look for viable and reliable markets is still in its infancy in WCA and would have to be rolled out on a greater scale.

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