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International Fund for Agricultural Development

PROJECT CLUSTER EVALUATION ON RURAL FINANCE
in East and Southern Africa (ESA)

Learning event

19 July 2023

15.30 – 17.00 Nairobi time | 14.30 – 16.00 Rome time

Organized by

the Independent Office of Evaluation of IFAD

in collaboration with

East and Southern Africa Division, IFAD

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Background

- **Main objectives of the evaluation**
  - ✓ Assess results and performance of projects
  - ✓ Inform strategies, designs and implementation of similar interventions
- **Criteria for project selection**
  - ✓ Start date after the 2009 IFAD Rural Finance policy and min duration of 6.5 years
  - ✓ Multiple interventions levels (financial institutions, financial infrastructure and policy/regulatory) and wide range of partners (village institutions, microfinance and commercial banks)
- **Evaluation methodology**
  - ✓ Desk reviews on project documents, literature reviews
  - ✓ In-country back-to-back missions (between Oct-Dec 2022)
  - ✓ Comparative analysis

Projects covered by this PCE

- **Ethiopia**: Rural Financial Intermediation Programme II (RUFIP II)
- **Kenya**: Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)
- **Zambia**: Rural Finance Expansion Programme (RUFEP)

Key findings: Relevance

- ▲ Strong alignment to challenges of the rural finance sector.
- ▲ Project pursued interventions at multiple levels (micro, meso, macro)
- ▼ Complex designs and the involvement of multiple government institutions create challenges for start up and implementation
- ▼ All projects lacked well-defined targeting approaches

Impact pathways	PROFIT Kenya	RUFIP II Ethiopia	RUFEP Zambia
Reduce default risk of agricultural credit to increase lending to agriculture	✓✓✓		
Provide access to (subsidized) refinance	✓✓✓	✓✓✓	
Strengthen capacity of FSP on product development	✓	✓✓	✓✓
Strengthen capacity of FSP related to technology and innovation			✓✓✓
Strengthen capacity of SME (e.g., business development) to reduce business failures and defaults	✓		✓
Strengthen capacity of farmers/farmer groups (e.g. market linkages) to reduce business failures and defaults	✓		✓✓
Start-up grants to kick-start agricultural investment for ultra-poor	✓		✓

Key findings: Effectiveness (1 of 2)

	PROFIT Kenya	RUFIP II Ethiopia	RUFEP Zambia
Years	8.5	9.0	8.0
Actual expenditure (US $ mil.)	91.0	169.5	26.3
Reported number of beneficiaries (% female)	441,091 (53%)	14,202,645 (45%)	643,449 (54.7%)
Micro level			
Risk sharing facility	Provided credit guarantees to two commercial banks, leveraging 4.8 times the investment, for on lending to microfinance banks and SACCOs	Not present	Not present
Credit facility	provided $ 6 mil in credit to microfinance banks for on lending to clients.	Provided $ 35 mil to microfinance institutions and RuSACCOs for on lending to clients.	Not present
Financial graduation and beneficiary training	Reached 2,506 ultra-poor households with financial training, promotion of savings and business support services. 24,942 farmers trained on horticulture and dairy value chains.	Not present	Not present
Technical assistance to Financial Service Providers (FSPs)	Trainings to 283 small and medium enterprises, 24,942 farmers, and 50 SACCOs.	Trainings to 3,261 FSP staff, of which 441 RuSACCO staff	Provided matching grants, combined with technical assistance to 48 implementing partners, with an ultimate outreach of 643,449 beneficiaries (54.7% women)
Grants to FSPs	Not present	Not present	
Meso and macro levels			
Policy and regulatory support	Not present	Several new policies and strategies within the National Bank of Ethiopia. Strengthening of the Federal Cooperatives agency resulting in higher audit coverage of RuSACCOs.	Several policy and regulatory documents produced, including on financial education and regulation of FinTechs

Key findings: Effectiveness (2 of 2)

- ▲ All projects met their output targets, although with delays, resulting in increased access to financial services
- ▲ PROFIT's (Kenya) risk sharing facility achieved a 4.8 leverage ratio commercial banks and 5.1 through microfinance banks.
- ▼ Aside from increased outreach and increased returns for FSPs, the project benefits were not sufficiently passed on to clients, especially the most vulnerable
- ▼ Training for Financial Service Providers in Kenya and Ethiopia was not well sequenced and targeted

Key findings: Impact

▲ Positive impacts on agricultural productivity and asset accumulation

▼ Limited impact on financial service providers products and policies

	PROFIT Kenya	RUFIP II Ethiopia
Income/productivity/ yield increase	53 percent of households reported an increase in yields between 2017 and 2019 with average yield increase of 49 percent	The average household income increased eightfold The productivity of several crops was between 2.9 percent and 8 precent higher compared to a control group
Asset accumulation	Smallholder households increased the average value of their household and farm assets by approximately 54 percent	56 percent higher ownership of assets compared to a control group Increase in livestock ownership of 17 percent

Key findings: Sustainability and Efficiency

- ▲ Involvement of community level financial organizations
- ▲ Credit guarantees and matching grants for innovation present opportunities for leveraging private sector resources.
- ▲ PMUs set up in predecessor projects in Ethiopia and Zambia helped improve implementation

- ▼ Critical data on performance and sustainability of FSPs was not collected by the projects.
- ▼ Over estimation of project beneficiaries
- ▼ Continued perception of high risk in smallholder agricultural finance
- ▼ Lack of IFAD technical follow up in the early stages of PROFIT

Conclusions

Conclusions

- Lack of well articulated targeting strategies, including on gender
- Appropriate choice of FSPs but insufficient engagement, capacity development and monitoring
- High risk perception and high operational cost remain challenges

Lessons

- Technological innovations are useful but face-to-face interaction at the community level is critical for FSPs
- Lines of credit are a popular approach, but credit guarantees have proven effective
- Complex design is relevant but requires investment in project management and technical supervision
- Consumer protection and financial literacy are key aspects for inclusive rural finance

Recommendations to IFAD

1. Develop mechanisms at the design stage to ensure that FSPs use the benefits they received to increase customer value for the target group

2. Require and provide guidance to Project Management Units to conduct thorough assessments of the capacities of FSPs, and to set mutually clear expectations of the implementation, targeting and reporting requirements

3. Require that project design and M&E systems collect financial sector-specific data and a more accurate counting of beneficiaries, to inform project management

4. Provide more substantial technical guidance on gender equality and women's empowerment at project design and implementation stages.

5. Provide greater technical guidance on targeting strategies which aim at addressing the needs of disadvantaged groups such as the youth