



Matching Grants

Technical Note



Enabling poor rural people to overcome poverty

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Technical Notes provide practical suggestions and guidelines to country programme managers and project design teams to help them design and implement programmes and projects. They support IFAD's Rural Finance Policy and *Decision Tools for Rural Finance*, and should be read in conjunction with those documents. Other parties involved in the projects, such as the members of the project management units, staff from participating financial service providers and host government ministry employees also may find these notes useful.

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Introductory note of the authors

This technical note was commissioned by the Financial Assets, Markets and Enterprise Unit of the Policy and Technical Advisory Division of IFAD to the Investment Centre Division of Food and Agriculture Organization of the United Nations (FAO). It is designed to meet the needs of the growing number of projects and programmes that are using matching grants to finance investments. It aims to respond to the growing uncertainty about design standards and concerns about potential conflicts between the matching grant instrument and other policies and concepts, such as the IFAD Rural Finance Policy (2009) and the need for sustainable solutions and impacts.

The primary authors are Frank Hollinger (Frank.Hollinger@fao.org) and Michael Marx (Michael.Marx@fao.org), both rural finance officers in the Investment Centre of FAO. Anna Asfaw and Massimo Pera, consultants, conducted most of the background research and interviews. The work was supervised by the IFAD Rural Finance Team, comprised of Michael Hamp, Francesco Rispoli and Emily Coleman. The authors and the Rural Finance Team welcome comments and suggestions.

Introduction

Background

Matching grants have increasingly been used in the context of international development by multilateral and bilateral institutions, including IFAD and the World Bank. Although initially confined to public goods investments, they are being used more and more to finance productive assets and investments by communities, groups and individuals. Matching grants can compensate for the absence of suitable term and investment finance and to stimulate investment and business activity where the intended beneficiaries operate under severe constraints (e.g. insufficient equity) or where the innovations have higher risks or unpredictable profits.

However, using matching grants entails substantial risks. They can distort and crowd out private and public investments, and this effect can be exacerbated by elite capture and rent-seeking behaviour, leading to poor use of scarce public funds for the benefit of the few. Matching grants can also undermine introduction and expansion of financial services in rural areas. These risks are exacerbated if the grants are poorly designed or used without clear rationale and economic justification. Often, little consideration is given to alternative options involving financial institutions or to potential side effects, particularly on the rural financial system.

Despite their growing use, matching grants are not well addressed by rural finance strategies, policies and guidelines in IFAD or other international financial institutions. They are also under-researched, and there is little evidence of their effectiveness or impact in promoting productive and profitable investments. Thus, there is little experience or knowledge available to guide implementation.

Objectives, scope and focus of this technical note

This technical note aims to help project designers and reviewers of the design process to decide whether matching grants are the most appropriate financing instrument in a given context and what to consider when designing a matching grant component. The note focuses on use of these grants to finance productive assets and investments for business purposes. This use of matching grants is more

controversial because of its potential to distort rural markets, and therefore guidance is more urgently needed. This technical note does not deal with other applications of matching grants, such as for fertilizer vouchers; cofinancing of extension and business advisory services; scholarships or grants for education purposes; research; or other types of subsidies for agriculture and rural development.

This technical note is a work in progress, to be validated, improved and expanded through further empirical and analytical work, peer reviews and feedback from practitioners. We hope that teams working on project design, quality management and implementation will find it useful, and we encourage practitioners to send their comments, experiences and feedback to the authors.

1. What is a matching grant and what is its purpose?



1. What is a matching grant and what is its purpose?

Definition

A matching grant is a one-off, non-reimbursable transfer to project beneficiaries. It is based on a specific project rationale for particular purposes and on condition that the recipient makes a specified contribution for the same purpose or subproject. Grants and matching contributions can be either in cash or in kind, or a combination of both. They may or may not be provided together with other financial services, such as loans, or linked to them. As one-off transfers, matching grants differ from permanent public transfers, such as subsidies for inputs and services (e.g. fertilizer or interest rate subsidies) or safety nets (e.g. cash transfers, food for work).

Uses

Within community-driven development projects, matching grants are typically used to finance social and economic infrastructure, productive assets and income-generating and livelihood-diversification activities by groups, and sometimes by individuals. Within rural and agricultural business development projects, they are used to develop agricultural value chains, promote innovation and technology, enhance access to extension and support services, and support farm diversification.

They can be classified by purpose (type of goods and services financed), by the public or private nature of these goods and services, by type of recipient, by allocation mechanism and by type of resources provided (Table 1).

Table 1. Types of matching grants according to key criteria

Criteria	Categories	Examples
By characteristics of goods and services	Public goods/services	Social infrastructure (schools, clinics, water supply and sanitation), productive infrastructure (roads)
	Private goods	Inputs, machinery, business development or engineering services to individuals or companies
	Impure public and private goods ¹	Goods and services targeting individuals, groups within a community (irrigation, storage, group-based processing) or entire communities
By purpose (type of capital)	Working capital	Seeds, fertilizer, fuel, etc.
	Investment capital	Equipment, vehicles, land, related technical services
By recipient	Suppliers of goods	Financial institutions, researchers, technology providers and services
	Users of goods and services	Farmers and farmer groups, rural micro-, small and medium-sized enterprises
By allocation mechanism	Entitlement based	Community-driven development
	Competitive	Some value chain, research and technology generation
	Through financial institutions	Linked to a complementary loan from a financial institution

¹ Impure public goods show some but not all of the features of pure public goods. They have limited excludability (investors can thus not recover the full investment and operating costs due to free riders) limiting their appetite for investment. On the other hand, they are not used by the entire public and are therefore a lower priority for public funding. Ideally, they require some forms of public-private-partnerships for which matching grants could be a financing instrument. In practice it is often very difficult to clearly distinguish between the public and private nature of some investments.

2. Why use matching grants?



2. Why use matching grants?

Well-designed matching grants may help draw private investments and investors into growing or underserved markets by addressing specific barriers to market entry for certain target groups, technologies or service providers. They can thus stimulate market development and be part of public policies for making markets work for poor people.

However, they can distort markets and private investments, and they also compete with alternative uses of public funds. Matching grants may also have negative side effects (see Box 1). Grant resources also need to be mobilized domestically,² and in most developing countries fiscal revenues are mainly generated by indirect taxation such as value-added taxes that tend to harm the poor disproportionately. As a result, matching grants should be used only where there is a clear rationale for their use and the expected benefits have been weighed against the costs and possible harmful side effects.

The use of grants and other types of public interventions can be justified by market failures. These can generally be described as situations in which the

Box 1 **Distortive effects of matching grants**

Matching grants are introduced in response to market failures and distortions, but they may have distortive effects of their own. Sometimes the difference between impact and distortion is a fine line. Distortive effects may arise from:

- Promoting non-viable or non-feasible enterprises or business activities
- Substituting savings with external grants
- Crowding out financial institutions
- Crowding out private investment
- Misallocating scarce resources
- Supporting asset creation among groups of people, instead of individuals, which may lead to lack of care and maintenance of the assets received or failure to achieve satisfactory levels of profit.

Possible distortive effects should be identified during project design, together with suggestions for how project managers could or should deal with them and mitigation measures to avoid conflicts and negative impacts.

² Even the use of international development loans only postpones the need for domestic resources.

underlying conditions depress demand for and supply of goods and services to levels below what can be economically justified, leading to inefficient resource allocation and reduced societal welfare. A further case for public intervention through grants can be made to improve income distribution in extremely unequal settings and to address extreme poverty and social exclusion. However, given the pervasiveness of market failures, inequality and exclusion in rural areas in developing countries, and the scarcity of public funds, grants should be used cautiously. Before choosing this approach there should be a detailed analysis of the type of market failures and the underlying causes, and an assessment of alternative options to address them.

Matching grants are least controversial when used for investments that support public goods, such as agricultural research and development. Social infrastructure – such as clinics, schools and water and sanitation facilities – has characteristics of both public and private goods. Economic infrastructure – irrigation schemes, market facilities, communal storage and processing facilities – provide benefits to some but not all community members, and their benefits are distributed unequally, which makes them closer to private goods than public goods. This applies even more to productive assets for groups and individuals and their enterprises, such as machines and equipment, livestock or buildings. In general, the clearer the public good character of an investment, the stronger the case for public co-funding. However, public cofinancing of investments with private good character might still be justified by positive externalities and spillover effects, or on poverty grounds. Examples include the generation and introduction of innovations, green technologies or new technologies with unproven risks and profit levels; initiatives to reintegrate ex-combatants; or start-up enterprises of young graduates.

Even if the case for public cofinancing of productive investments can be made in principle, the advantages and disadvantages of matching grants need to be carefully assessed and weighed against potential alternative interventions and uses of public funds. These include financing of social and productive infrastructure, establishment and strengthening of financial institutions and services, or other measures addressing some of the structural constraints of providing term finance. Such assessments should also recognize that matching grants might not be the best instrument. For example, chronically poor and destitute groups might be better served by productive safety nets or other permanent cash transfer or social protection systems. Environmental externalities might be better addressed through payments for environmental services and related instruments.

Moreover, the risk of ‘government failure’ – the inability of the public sector to address a given market failure at reasonable cost and without creating further distortions – needs to be thoroughly assessed in any specific situation. The assessment should take into account the costs and time required to set up and operate a matching grant facility, the capacity to implement grants in a transparent and efficient way, and the need for training and capacity-building for key stakeholders. Costs and delays can be substantial. They need to be assessed realistically and in relation to the project duration and post-project situation.

3. Matching grants and financial services



3. Matching grants and financial services

Matching grants are one-off contributions and as such are not a sustainable solution for enterprise financing. Strengthening the rural financial system and its ability to provide term and investment finance is clearly the preferable long-term solution. However, developing rural financial systems takes time, often more than a decade, depending on the goals and the state of development in a given area. Costs can be substantial, and designers have to live with the constraint that financial institutions have the autonomy to decide who receives a loan, which may or may not include everyone the project designers deem eligible.

The primary advantage of matching grants is that they allow for relatively quick results, despite their fiscal costs and questionable medium- to long-term effects. While the main emphasis should remain on enhancing the availability and quality of term finance as part of developing rural financial systems, matching grants might be strategically used in selected cases to kick-start local economic development, preferably in combination with financial services. Grants should be market smart – meaning they should be targeted, with clear selection and eligibility criteria, time bound, capped and transparent, and they should invigorate rather than undermine existing service delivery channels. They should also be designed in a way that makes grant recipients more ‘bankable’ and links them with financial institutions. In any case, matching grants should avoid negative interferences (such as those mentioned in Box 1) and should not crowd out financial services.

Using matching grants as an interim instrument to cofinance productive investments might be acceptable where they can play a complementary or triggering role in opening financial institutions or removing market failures. Assessing whether this is the case requires a thorough analysis to understand the main demand and supply constraints for term finance and to identify the most suitable entry points. If this analysis indicates that matching grants should be part of the solution, they should be designed to complement and support the expansion of sustainable financial services in rural areas and minimize possible distortions and negative interferences. This can be achieved through tripartite arrangements between financial institutions, recipients and the originator of the matching grant fund.

The need for working capital and deposit facilities provides an immediate opportunity to link grant recipients and financial services providers. If local financial institutions can provide working capital but cannot extend term loans, it would be reasonable to introduce a mixed approach: short-term loans through the financial sector, and matching grants for investments only. By increasing the profitability and asset base of recipients, matching grants also enhance their creditworthiness, especially if they receive complementary training and other support services. Whether or not such grants should cover a part of the initial working capital depends on the specific conditions of the assets to be financed and the target group.

Box 2

Integrating matching grants and bank lending: The case of the Rural Enterprise Programme in Ghana

Phase II of the IFAD-funded Rural Enterprise Programme in Ghana financed production and processing equipment using matching grants: 30 per cent of investment costs was grant funded, 10 per cent was funded by the beneficiary and the remaining 60 per cent was covered by a loan provided by a participating financial institution. Financial institutions bore the full credit risk of the loan component. Ceilings per client for total investment cost of equipment were fixed in terms of the level of enterprise development for micro- and small enterprises:

- At start-up stage: maximum investment of US\$500 and maximum grant of US\$150
- At survival stage: maximum investment of US\$1,000 and maximum grant of US\$300
- At high-performing and growth stage: maximum investment of US\$3,000 and maximum grant of US\$900.

Any investment cost higher than the ceiling had to be met by the client.

No systematic evaluation of the results has been undertaken so far. However, portfolio quality data for 21 rural and community banks and three branches of the Sinapi Aba Trust participating in the programme show a portfolio at risk (PAR > 30 days) of 6 per cent and an overall recovery rate of 98 per cent. This compares favourably with data from a survey of portfolio quality among rural and community banks carried out in 2007, which reported a PAR of 22.7 per cent, versus 7.3 per cent for financial NGOs and 5.3 per cent for savings and loan companies. One reason for the good repayment performance might be that clients are selected among trainees of Business Advisory Centres supported by the project.

There are no comprehensive data showing repayment rates for loans granted by participating financial institutions that are co-funded by matching grants. However, selected evidence shows that the repayment rate over such loans is about 20 percentage points below that for loans funded purely from own resources without a matching grant component. Most practitioners and analysts apparently agree that this has less to do with confusion between grants and loans and more with (a) the fact that decisions on matching grants often experienced lengthy delays and (b) the involvement of government funds, which seems to entice borrowers to escape from repayment.

A more ambitious approach is to link investment grants strictly with bank financing. In this case grants are awarded only to investors with business proposals strong enough to be awarded a bank loan for a substantial portion of the financing requirements. The advantages are that appraisal costs are low, viability and feasibility are properly checked by professionals, sustainability prospects are higher (in view of the access to working capital finance) and there is a clear disincentive for mere grant-seeking. Boxes 2 and 3 provide examples of such approaches.

Such tripartite approaches may lead to short-term and long-term benefits for both investors and financial institutions. The matching grant helps investors to establish or strengthen their track record with the financial institution of their choice. This allows the financial institution to enhance its client base at a slightly reduced risk exposure and gain experience in term and investment finance, which is likely to improve the quality of its products and services.

However, tripartite arrangements are subject to a number of conditions that need to be assessed during design and potentially addressed during implementation. The financial institution (a) needs to be financially and operationally sound and have outlets in reasonable proximity to the clients; (b) needs to have some experience in lending to the target group and in appraising the technical and financial viability of eligible investment purposes; and (c) should be willing to bear all or most of the risk of the loan and provide additional working capital finance if needed. Preferably, a matching grant facility should be made accessible to several eligible financial institutions to enhance competition. Where these conditions are only partially met, projects might consider introducing other measures such as those outlined in Annex 2. Moreover, it is essential to clearly separate the loan from any related repayment obligations from the matching grant.

Box 3

Rural Investment Facility 2 in Rwanda

Rural Investment Facility 2 is a grant programme under the Rwandan Ministry of Agriculture and Animal Resources, originally administered by the National Bank of Rwanda and later transferred to a specialized fund manager. By mid-2011, fund management was transferred to a subsidiary of a government-owned development bank that took over the management of most grant and guarantee programmes in Rwanda.

The objective of the facility is to provide incentives for financial institutions and entrepreneurs to finance productive investments in agriculture. It provides a grant for a certain portion of an investment loan taken along the agricultural chain by an investor who

wants to obtain a loan from a licensed financial institution to partially finance the investment. Working capital and operating costs do not qualify. Individuals, farmer associations, cooperatives and corporate bodies borrowing from a licensed financial institution are eligible for support.

Three categories of projects are eligible:

- Projects up to US\$85,000 in value involved in primary agricultural production (e.g. machinery, construction of agricultural buildings, land acquisition and improvements, storage and transport facilities, etc.), which receive a grant of 20 to 25 per cent of the investment
- Projects up to US\$250,000 in value engaged in processing of agricultural products (e.g. for processing equipment, construction of processing facilities, etc.), which receive a grant of 20 to 25 per cent of the investment
- Projects up to US\$250,000 in value involved in agricultural support services (e.g. for seed chain investments, extension services, capacity-building, technical assistance), which receive a grant of 15 per cent of the investment. For production and processing projects, smaller projects obtain a higher percentage of grant support.

Only financial institutions can apply for grants, on behalf of their customers, and they bear the full credit risk. Applications must include a solid business plan including a project description; an assessment of the socio economic impact; a realistic assessment of the marketing prospects and the risks and post-loan sustainability; and a complete financing plan, also including working capital. The Ministry pays private consultants to assist potential investors in developing business plans. However, both banks and potential investors have complained about the quality of these support services.

The grant is paid into the loan account through which the respective bank receives instalments from the borrower. Upon signature of the loan and grant agreements by all parties, the grant is conditionally disbursed to the bank by the fund manager. When the principal and interest are paid off minus the grant amount, the debt is offset. If the principal borrower does not meet her/his obligations, such as by failing to make payment for more than six months, the bank will inform the principal borrower that the grant arrangement has been cancelled. In that case the borrower must then repay the entire loan amount without grants, notwithstanding any other penalties imposed by the financial institution. Although neither the National Bank of Rwanda nor the fund manager have so far published default data, both institutions have stated that default levels have been marginal so far. Given that banks apply for the grant and customers are told that they can obtain the grant only with continued repayment of the loan, there is little scope for misinterpretation about the difference between a grant and a loan.

After two years of implementation under the National Bank of Rwanda, 2,109 projects worth US\$26.6 million have been supported, of which 98 per cent involve production and 2 per cent involve processing. On average, grants have amounted to 23 per cent of the bank loan and 10 per cent of the overall project value (as at June 2011).

For details of the facility, terms and conditions see:

<http://amis.minagri.gov.rw/content/rural-investment-facility-rif-2>

and http://www.bdf.rw/matching_grant.php.

4. Technical guidance for the design process



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Matching grant components must be diligently designed and must include at least the following items:

- Justification for the use of a matching grant as an instrument in the proposed project/programme, based on an analysis of alternative interventions and financing options
- Objectives of the matching grant component
- Intended beneficiaries
- For each main type/category of matching grants: details on the type of support (assets, cash/in-kind, technical assistance, etc.), minimum and maximum grant amounts, expected matching contribution (amounts in cash/kind)
- Eligibility, selection criteria and approval procedures for each type of matching grant and whether selection is competitive (where applicable)
- Selection process and institutional arrangements, in particular the composition and mandate of entities in charge of decisions
- Expected main outcomes and impacts of the scheme, which should include a realistic assessment of how the grant will address the market failure and how the grant will contribute to correcting the market failure
- Performance indicators and monitoring and evaluation (M&E) arrangements.

More details are to be provided in an annex or working paper. Ideally, all steps listed below should be covered in the description and should comply with the following minimum standards or practices.

Step 1: Determining whether a matching grant is appropriate

Six key questions need to be addressed during design to assess the rationale and suitability of matching grants as a financing instrument and to provide information on project design. The focus here is on productive investments of groups and individuals.

1. What types of investments are to be cofinanced and for whom?

- Define the eligible types of investments and their costs, including investment and working capital requirements.
- In case of a broad range of possible choices, define a negative list and/or exclusion criteria.
- Define the target groups for each type of investment.

2. What is the case for public cofinancing of these investments?

- Define public good characteristics, if applicable.
- Describe the exact types of externalities, including spillover and demonstration effects, and quantify them to the extent possible.

3. Are the investments technically feasible and financially profitable?

- Provide evidence about the technical feasibility of the investments in the project area (e.g. availability of spare parts, repair facilities and technical support services beyond project life).
- Assess the profitability of the investments by calculating their internal rate of return and net present value, where feasible. If a broad range of investments are eligible, assess the profitability of the most representative types of investment. The internal rate of return should exceed the opportunity cost of funds (e.g. the current treasury bill rate of the central bank).
- Ensure that marketing conditions and prices are assessed realistically.

4. Why are these investments not currently financed up to their economic potential in the project area?

This question requires an analysis of both the target group (demand side) and the financial system (supply side).

Analysis of the target group

- Determine the key socio-economic characteristics of the target group, including:
 - Income levels and asset base
 - Savings capacity and ability to cofinance investment and working capital
 - Current access to different types of financial services and institutions.
- Analyse what is constraining the target group's access to financial services, in terms of geographic proximity, psychological barriers (language and communication styles, procedures, attitudes), and terms and conditions (high

minimum savings balances, restrictions on withdrawals, mortgage as a primary form of collateral, etc.).

- Based on this analysis, assess the financing gap to be covered by matching grants for the different types of investments.
- Assess whether the target group has the technical and managerial capacities and the financial means to operate and maintain the investments in a durable way.
- If not, reconsider:
 - Whether closing the initial financing gap through matching grants is appropriate
 - Whether complementary measures are needed to ensure the durable operation of the investment, and which ones
 - Whether and how the project can ensure that these measures will be put in place.

Analysis of the financial institutions

- Screen and assess financial institutions in terms of their ability to provide investment and working capital finance in the target region, for the target groups and for the targeted investments.
- Assess the appropriateness of products and services for the target groups and investment purposes.
- Analyse the key constraints facing financial institutions, such as (a) insufficient knowledge about target groups and investments; (b) perceived risks and restrictive policies on client selection, collateral requirements and interest rates; (c) inadequate operational capacity; and (d) high cost of and lack of access to long-term funds (given asset-liability matching regulations).
- Determine the interest of financial institutions in developing appropriate financial products for the target markets and the support that the project could provide.

5. Would it be feasible to support financial institutions to upgrade their services to meet some of the financing requirements?

Based on the constraints facing financial institutions, decide:

- Whether and how the proposed project or other ongoing intervention could contribute to tackling some of the key constraints
- Whether there is still need for a matching grant
- Whether matching grants could undermine the introduction or expansion of term finance.

6. If matching grants are needed, how can they be designed to maximize their effectiveness in promoting viable investment and drawing in commercial financial services?

- Financial institutions should be consulted during preparation of the initial design to ensure that alternative solutions are explored and that grant support will leverage – not undermine or interfere with – their ongoing activities.
- Where possible, grant approval should be subject to the willingness of financial institutions to provide working capital and/or term loans at their own risk. (This may require additional measures to address constraints facing financial institutions.)
- Where this is not feasible, at least not in the short term, a robust institutional design is crucial, maintaining high professional standards while minimizing political interference and rent-seeking.

Even where the analysis determines that local financial institutions would not be keen to finance the target group, it would be highly desirable to introduce and promote a simple linkage programme. Grant recipients should be reminded of the need to maintain at least a savings account at a financial institution and to use it to hold excess income and finance raw material, spare parts and other operating costs. They should also practice setting aside an amount necessary to replace assets that reach the end of their economic life. Project managers should meet regularly with representatives of financial institutions to discuss project activities, the potential of target groups, results achieved and the need for additional financial services to complement project activities.

Step 2: Defining core matching grant parameters

Choosing between facilities and funds

Many projects with matching grant components offer two or more types of assistance (windows) to different target groups. Some propose the creation of one facility with several windows, while others propose creation of different funds.

There is no categorical preference for either structure. It might be advisable to establish two separate funds where the activities to be promoted are fundamentally different, where completely different target groups are served, where different professional experience is needed to appraise applications and where there may be pressure to transfer funds from one facility to another. Separate funds might also be advisable when the amounts available are substantial, thus justifying separate, specialized staff. While ring-fencing, management and reporting may be easier with clearly circumscribed funds, management costs are likely to be slightly

higher with two separate funds due to the duplication of some functions and under-employment of staff.

In any case, for each type of support, complete guidance should be provided in the project design document, including objectives, target groups, intervention mechanisms, nature of support and eligibility criteria.

Determining matching grant and matching contribution

- For each category of support, state:
 - Objectives of support
 - Minimum and maximum amount or quantity of support receivable
 - Eligibility criteria
 - Competition elements or selection criteria (where applicable)
 - Disbursement modalities for grant (once, or in instalments or stages)
 - Definition of milestones or disbursement conditions
 - Nature and quality of matching contribution by recipient and their payment modalities.
- In many cases it will also be necessary to list what cannot be financed (e.g. land purchase, vehicles, computers, in-kind labour).
- The project design report should calculate for each category of investment the expected number and average value of grants.
- The amount of support is generally fixed as a percentage of the total costs of the investment or subproject.
- In addition to asset acquisition, matching grants may finance the following items:
 - Technical assistance, consultancy services and advisory services, including training, capacity-building, market research, marketing studies, business plans and advocacy, including honoraria, travel, allowances and overhead costs.
 - Initial working capital for agricultural inputs (including seeds, fertilizers, fish and animal feeds, agro-chemical products, fuel) as a second best alternative to equity or credit financing, mainly where a clear market failure has been identified.
- In the case of competitive matching grants to enhance the adoption of innovations, grants may comprise three major elements:
 - A demonstration element covering the costs to set up the activity
 - A service provider element covering the costs of local technical assistance
 - A technology transfer element covering the costs of disseminating the experience gained with the new technology to others.

- Where the project is to procure goods (e.g. where technology development is supported) the specifications should be stated, at least in the project implementation manual [PIM]). Where these differ from case to case, the process of determining the specifications should be stated.
- The matching contributions to be made by the beneficiaries should be fixed in the project design report. This is a complex and difficult task that should be based on the economic and financial analysis of the investments to be supported and the socio-economic situation of the target group.
- In general:
 - The lower the contribution of the recipients, the lower their ownership, the higher the interest of local politicians and potential beneficiaries, and the faster the disbursement rate.
 - The greater the contribution of recipients, the higher the probability of generating adequate levels of ownership among recipients, the higher their diligence in handling funds and goods, the lower the interest in the funds (especially where several donors offer similar schemes) and the slower the disbursement rate.
 - The greater the contribution of recipients, the larger the risk for exclusion of poor investors. In this case specific savings schemes could be designed to encourage poor people to save the required equity contribution.
- In determining the level of matching contributions:
 - The poorer the target group, the lower the monetization level in the zone of intervention and the lesser the cash income, the lower the matching contribution should be fixed. Indicators are the value of sales of poor farmers at local markets and the value of farm households' savings in informal savings associations. In countries with high income variance between regions, an approach that is differentiated by level of poverty, however justifiable, would usually not be politically acceptable.
 - The lower the income levels and the lower the monetization level in the area, the more beneficiaries should be allowed to make contributions in kind, e.g. in stones, sand, water and labour.
 - The higher the value of the goods financed, the lower the expected contribution. Alternatively, a sliding-scale matching grant could be used in which the grant proportion decreases as the amount of the investment increases. This is an indirect targeting instrument assuming that investment amounts often correlate with poverty levels and that the poor have less ability to contribute to investment costs.

- Where the goods supported have purely public benefits, such as clinics, maternity stations, schools and potable water schemes, only a minimum contribution should be required (e.g. 10 per cent) to ensure ownership, commitment and sustainability.
- In the case of goods with public utility character that generate business through their presence and functioning, such as marketplaces, veterinary pharmacies, laboratories and water schemes, the contribution level should be higher, probably in the range of 20 to 30 per cent.
- Where innovations are to be developed through research and development, or the scheme is to encourage adoption of new practices, contributions may be set at 20 to 40 per cent of the investment amount.
- The adoption of new environmentally sound practices may require two assessments, one economic and one social and psychological. On the economic side this includes anticipation of commercial losses, the potential to compensate these losses through other practices and the absolute value of the losses. On the social and psychological side it includes the presence or absence of enforcement mechanisms and the willingness of target groups to change their behaviour. In standard cases, the required contribution may be in the range of 30 to 60 per cent, depending on whether or not the innovations are judged to be tried and tested in principle.
- Ventures that generate income for private benefit, such as companies, associations, cooperatives or individuals, should require higher levels of contributions, probably in the range of 40 to 90 per cent of the investment amount. The more closely the purpose is related to a private for-profit venture, the higher the expected contribution should be.

Working capital

- Working capital requirements are often overlooked or inadequately treated during project design. A careful projection of working capital requirements has to be made for the entire economic life of the productive asset.
- It is also important to distinguish between normal working capital requirements for the ongoing activities of an enterprise and the incremental working capital requirements linked to the investment cofinanced through the matching grant. Incremental working capital requirements can be significant, at times reaching up to the value of the fixed asset investments. Insufficient access to incremental working capital leads to underuse of fixed assets. It can severely hamper the profitability of investments in productive assets.
- Hence, external financing requirements and investor contributions should be established based on the entire cost of the investment, including the

incremental working capital requirements. Generally speaking, activities that do not require any investments but incur higher operating costs should be supported only once. Otherwise, there is a high probability that beneficiaries will stop these activities when support ends.

Capacity to make the matching contribution

- Project designers should assess whether the target group is willing to make the required contribution and is capable of doing so.
- This should be combined with a survey on participants' knowledge of and experience with the innovations, such as crops to be produced, marketing channels and supply/value chains. This will confirm their ability to participate in and benefit from the proposed activities.

Evidence of financial contribution

- Beneficiaries should be required to deposit their contributions into a savings account before project support begins. While this serves to ensure that the contributions have been made, some beneficiaries have withdrawn these funds after sending evidence of deposit to the project offices. Where the risk of fund withdrawal is high, asking the bank to block these funds should be considered. Alternatively, payments could be made directly to the supplier of the good or service.

Definition of target group

- Which target groups are eligible or ineligible should be clearly defined in a comprehensive, clear and understandable manner (see Box 4).
- Target groups can generally be defined by categories such as profession, age, residence, gender or group affiliation. Some affiliations may require further narrowing, such as by turnover, employment or surface area cultivated.

Box 4

Groups or individuals as beneficiaries

Most matching grant schemes for productive investments are meant for groups, not individuals. Designers should be aware of the risks associated with group enterprises resulting from unclear ownership, management, responsibilities and accountability rules. These risks include lower profits and prospects of sustainability. They should be mitigated through awareness creation, selection processes, guidance, training and on-site technical assistance. Measures to reduce the risk of elite capture should be considered where appropriate.

- When selection is based on qualitative parameters such as capacity, ability, poverty and vulnerability, the criteria should be clearly defined.³
- The means of verifying fulfilment of the criteria should also be stated. Proof can include certificate of incorporation or occupancy, business license, tax payment receipt, lease/rent agreement, payment receipt, bank account statement.
- All of these issues need to be addressed in the PIM.

Eligibility and selection criteria

- Eligibility and selection criteria should be clearly defined, especially if demand is likely to exceed supply of funds and grants are awarded on a first-come-first-served basis. Selection criteria are essential where the award process is competitive.
- Eligibility criteria determine whether a person may in principle receive specified goods, services or funds. They include factors such as membership in the project's target group based on type of activity, socio-economic background, age, gender, area of intervention and participation in productive activities supported by the project. Selection criteria are used to narrow the number of eligible candidates, and they can be both quantitative and qualitative (e.g. extent of compliance with [xx], depth of [xx]).
- Clear criteria can be established only if the target group's background and context are well known and documented, such as through a household survey. Developing criteria also requires anticipating what might happen when the group receives the benefits, what structures are needed to ensure completion of the expected impact chain and what could go wrong. Negative eligibility criteria may therefore have to be added in such cases.
- Eligibility and selection criteria should be defined to support people, associations and companies that otherwise would not have engaged in the activity or would have engaged to a lesser extent.
- Ideally, the project design report, or at least the PIM, should include a weighting of the selection criteria. For example it could indicate that proposals will be selected based on specific criteria, for which a maximum score of 100 points will be possible: (a) technical review evaluation [xx points]; (b) concordance with national and project priorities as expressed in xx document [xx points]; and (c) innovativeness of technology [xx points].

³ For example: communities with xx per cent of people living below the government poverty line, or a minimum income of xx [currency and amount]. Or: Eligible households are those scoring below a value of xx on a socio-economic survey, based on factors such as quality of housing, level of education, occupation, ownership of livestock and consumer assets, means of transport, income and surface area cultivated/owned.

Exit strategy and post-project arrangements

- As matching grants provide one-time support, no exit strategy is usually required.
- An exception may occur when grant agreements stipulate that grants have to be partially or totally repaid to capitalize a village-based financial institution or a special fund of a governmental institution, and where repayments continue after the end of the project. Such approaches are usually referred to as 'cost recovery' elements. Where the entire grant amount is to be repaid, the support should not be labelled a matching grant.

Step 3: Institutional and management arrangements

Ideally, the project design report should contain a condensed version of at least the main institutional arrangements and procedures. These should cover (a) entities in charge of processing and their composition and nomination process; (b) the mandate, role and responsibilities of entities involved in decision-making; (c) processes and decision-making; and optionally (d) a complaints mechanism. Other points to consider are staff training, conflict settlement arrangements and exit strategies. The PIM should then provide a comprehensive set of all rules and regulations. Elements should represent good international practice, should be feasible and cost effective, and should fit into the overall project administration system.

Structuring the process

- It must be determined whether decisions on grants are to be made by project managers or by an independent institution. If an independent institution is chosen, it should have the capacity and independence to implement and manage the scheme transparently and effectively under the supervision of the government and/or project managers. It could be a service provider recruited from the market (such as an international or national audit firm) or a reputable NGO with the required skill and experience level. The project design report should assess the options for grant decision-making in terms of cost-effectiveness, risk of political interference, risk of mismanagement or nepotism, depth of experience, human and technical capacity, training requirements, ability to report on established parameters, and ability to replicate and scale up the project.
- A grant should be awarded only upon:
 - Successful appraisal of the project by a professional officer or technicians

- Approval by the head of the unit in charge of the matching grants, the project director or staff panel, a committee of local technicians or a committee of the local government body
- Approval by an appraisal committee.⁴
- Applications must be reviewed by a professional appraisal team qualified to assess whether the applications comply with all the requirements. This team should have full autonomy over the process.
- The committee taking the final decision on fund allocation must be autonomous and free from interference by third parties, including project managers and ministry staff. It must operate subject to regulations fixed outside the body. Institutions that can potentially play this role include chambers of commerce/industry/agriculture, sector-wide associations of businesses, farmer associations, central banks, banking associations or microfinance networks.
- Where large numbers of matching grants of relatively low value are to be disbursed, for example below a value of US\$100, the transaction costs for the appraisal committee would be excessive. In such cases, a simpler process would be suitable, for example, approval by two officers engaged in the process or one appraisal officer and her/his superior. Another option would be committee approval of a group of applications. In such cases, the relevant information on grants and recipients should be compiled in a summary sheet and submitted for an external review to a committee, panel or internal auditor.
- If additional layers of approval are introduced (e.g. district or provincial selection committees in countries or project areas with large populations and many applications), the tasks, mandates and responsibilities for each level need to be determined. Each level should be fully aware of what should be assessed and what should not.
- If panel members are selected based on their institutional affiliation (e.g. central bank, ministry of agriculture, chamber of commerce and agriculture) care should be exercised to ensure that membership is balanced and not dominated by any institution or sector and that the representatives act objectively, not as advocates of their institutions.
- Where a matching grant is linked to a loan from a financial institution, a choice has to be made regarding separate or joint appraisal and approval. While a case could be made for strict separation to avoid confusion about

⁴ Sometimes referred to as a steering committee, grant committee, review committee, approval committee, competitive grants committee, etc.

repayment obligations, in practice this has led to poor synchronization of approval decisions, resulting in long delays and frustration among financial institutions and beneficiaries. It is therefore preferable to peg grants to the approval of a 'matching' loan by the financial institution, provided that it carries all or at least a substantial part of the financing risks.

- Linking the loan and grant is more effective when the grant is a smaller part of the financing package. In such cases it is only necessary to review the eligibility of beneficiaries in line with the established criteria, followed by monitoring of a random sample of projects. Where there are many small matching grants, appraisal of eligibility could be reduced to after-the-fact monitoring of a random sample of projects. In case of improper targeting, the financial institution could be obliged to return the grant to the project fund.
- All applicants should be notified of the final outcome of their applications. Applicants who are rejected should be informed of the reasons for rejection and given the opportunity to modify and re-submit their applications.

Grievance and conflict resolution

- Some countries require a grievance mechanism, which can usually be handled by providing a dedicated telephone number and email address to receive complaints from dissatisfied applicants, observers or whistleblowers. The person in charge of this mechanism should operate outside the grant approval process and occupy a higher rank than the head of the unit in charge of the matching grants.
- In some cases, an ombudsperson may be needed to arbitrate disputes.

Training of staff and committees involved in the process

- The extent of training provided depends on the circumstances, in particular the technical capacity of the staff, complexity of the design and administrative process, technicality of the eligibility and selection criteria, prior experience of staff with similar grants and the accountability environment.⁵ Training should be delivered prior to processing the first applications and after finalization of the PIM. Ad hoc or refresher training may also be needed.
- Software and technology solutions may also require specialized training.
- Where possible, the generic criteria for potential service providers of training could be stated.

⁵ The IFC/WB publication on "Doing Business" [<http://www.doingbusiness.org/reports/global-reports/doing-business-2011/>] might be helpful in assessing the business environment.

Step 4: Monitoring effectiveness and assessing risks and impacts

Key performance indicators

- Key performance indicators should be closely related to project objectives. The output, outcome and impact indicators presented in Annex 3 are merely suggestions.
- With the exception of community-driven development projects, some basic elements should be monitored and evaluated. These should include the number and value of matching grants disbursed by type of activity supported and characteristics of the community; sustainability of projects after two to three years; and profitability, in cases where income-generating activities have been supported.⁶
- An effort should be made to clarify the causal link between the matching grants facility and the outcomes and impacts achieved, to determine whether the grant was the main factor behind the impact and outcomes identified. However, it must be stated that measuring attribution is difficult and complex.

Risks and risk mitigation

- The following five steps should be taken to deal with risk:
 - 1) Describe the risks potentially associated with the matching grant component.
 - 2) Assess the probability that such risks might occur during project implementation.
 - 3) Assess the potential impact of risks on implementation and the likelihood of achieving the desired results in the face of risks.
 - 4) Outline risk mitigation measures.
 - 5) Determine residual risks after successful implementation of the proposed risk mitigation activities.
- Typical (unspecific) risks include:
 - Elite capture⁷
 - Rent seeking
 - Commercial, technical and financial risks
 - Systemic failure of recommended technology and innovations

⁶ For details on community-driven development monitoring, see IFAD 2009c.

⁷ Measures to avoid elite capture used in the projects reviewed included small grant size (which makes grants less attractive to elites), application of self-targeting mechanisms, sliding scale for grants (with lower percentages of support to bigger projects) and clear definition of target groups and eligibility criteria.

- Government interference and political pressure to support projects not in compliance with conditions
 - Unwillingness of financial institutions to finance follow-up or replacement investments and working capital
 - Poor financial management standards of beneficiaries and project staff
 - Unrealistic projections of sales, costs and profits
 - Unwillingness of beneficiaries to make their pledged contributions
 - Insufficient number of satisfactory proposals
 - Insufficient number of qualified service providers.
- Typical (unspecific) risk mitigation measures include:
 - Rigorous selection of beneficiaries through a transparent process
 - Intensive orientation and training of beneficiaries and staff involved in the appraisal process on the requirements of honest and correct application of grant funds and the accountability of decision-makers
 - Beneficiary monitoring and establishment of internal controls (to be developed as part of the grant approval and management process) to help limit possible abuses
 - Effective operation of a robust monitoring system
 - Regular inspections
 - Penalties for abuse and malpractice; recovery of grants based on fraudulent practices in civil courts; and lodging of complaints with the police and criminal courts
 - Detailed selection criteria
 - Restriction on the total amount of support
 - Arrangements for linking disbursements with payment of the beneficiary's contribution, including the requirement for a down payment of the contribution into a bank account before disbursement of grant funds
 - Involvement of commercial banking institutions
 - Provision of technical assistance for beneficiaries
 - Post-disbursement follow-up visits by project staff
 - Funding the costs of business plans prepared by an accredited consultant.

Sustainability and impact

- The main objective of matching grants is impact.
- By definition, matching grants are not a sustainable financing instrument. However, the investments financed through matching grants are expected to be sustainable during their economic life.

- Indicators of sustainable investment impact could include improved access to financial services by the investor and replacement or expansion of the productive asset by the investor over time.
- The financing mechanism will be more sustainable and the impact enhanced if matching grants used by different donor-funded projects are harmonized and aligned with government policies and programmes in terms of the key matching grant parameters discussed in Steps 1 to 3.

Information disclosure

- Projects should make information available to the public, ideally through a project website that contains the following elements in the official/main languages of communication:
 - Overall objectives and main terms, conditions and procedures of matching grants
 - Procedures and guidelines for processing
 - A complete and current list of grant recipients, providing at least (a) applicant's name and contact details; (b) the nature and main objective of the project; (c) window under which the grant was awarded; (d) amount of support; and (e) dates of application, approval and disbursement of the first tranche
 - A list of grants that have been revoked, with a summary of the main reason for revocation
 - Application forms for each window/facility
 - Links to a facility for complaints, whistle blowing or grievances, with a dedicated email address and telephone number
 - A summary of field and liaison offices, with staff names, office physical and postal addresses, and official landline and mobile telephone numbers
 - An annual report on results achieved, with details of applications received, reasons for rejections, approvals, funding, results achieved by projects, status and total disbursements, by window, nature of project, type of applicant, location, etc.
 - Any other relevant information related to the facility, such as audit reports and evaluation reports.

Step 5: Costing and financial analysis

Costing

- In the case of a business-oriented facility, total overhead costs for processing matching grants, including expenses for appraisal, verification, decision-making, reporting, documentation, M&E and special audit, generally should not exceed 8 to 10 per cent of total funds for the facility. This may be higher under difficult conditions but should not exceed 15 per cent. Costs of administering very small matching grants to a large number of beneficiaries should not be more than 15 to 20 per cent of the grant value.⁸
- In the case of an innovation facility, overhead costs should be around 5 to 8 per cent for facilities with small numbers of large grants and standardized approaches not requiring external assistance, and up to 12 to 15 per cent where large numbers of small grants are processed using external assistance.
- When grant processing is subcontracted to institutions or firms with tried and tested systems, the cost of subcontracting should not exceed 8 to 10 per cent of the volume disbursed.
- Community-driven development projects may have overheads of 15 to 20 per cent of total costs of the facility where (a) there is extensive local participation in design, implementation and supervision, (b) projects are spread out over many regions and (c) projects target poor communities.
- For matching grants involving grass-roots financial institutions, costs may range from 10 to 18 per cent, depending on the need for external assistance in the appraisal process.
- In countries with a high prevalence of malpractice, poor financial management standards, inadequate public procurement systems, lax internal control mechanisms and low scores on the Transparency International Corruption Perception Index,⁹ additional expenses of about 2 per cent of the grant volume for anti-corruption measures may be justifiable to ensure correct management.
- The numerator for calculation includes the proportional salaries and emoluments for staff involved in the process; initial legal fees for setting up the facility and for recovery in case of fraudulent applications; training of

⁸ This compares with credit transaction costs of efficient commercial banks in Europe of 0.7 per cent of the loan value outstanding, 3 to 5 per cent for medium-sized commercial banks in developing countries and 8 to 15 per cent for medium-sized microfinance institutions operating for more than five years. Operating costs for small loans in rural areas might be somewhat higher.

⁹ The Transparency International ranking of many countries can be seen at www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

clients/recipients, staff and committees; and audit. The numerator excludes costs to elaborate the PIM and midterm and project-end evaluations.

- The denominator includes the total costs of the facility, including the grants and all overhead costs, but excluding the costs for M&E, audit and project reporting usually associated with project management.
- If the first calculation of total operating costs exceeds 12 per cent under difficult, extraordinary circumstances, the project design should be critically reviewed.

Economic and financial analysis

- Standard approaches to economic and financial analysis apply.¹⁰
- Where matching grants are offered for specific innovations, production models, model enterprises or technologies, a standard financial analysis should be prepared, showing the results with and without external support.
- Where predetermined innovations are not supported, designers should attempt to provide a reasonable, objective estimate of the anticipated investments. They should then draw on any similar experiences and data or on a small number of investments deemed representative to estimate demand (if the main investment options in the project areas can be anticipated). The expected incremental revenues could then be used to develop an overall economic and financial analysis.
- If it is not possible to make reasonable assumptions about the main types of investments likely to be financed, an eligibility criterion could be introduced stipulating that the minimum financial internal rate of return of proposed projects would need to be higher than the opportunity costs of funds.
- Where the proposed business venture reaches a certain level, for example above US\$20,000, the economic and financial analysis should include a sensitivity analysis and a calculation of net present value and financial internal rate of return.
- No economic and financial analysis is needed in cases of organizational or institutional reform processes, social infrastructure, capacity-building measures, natural resource management or environmental protection. In

¹⁰ The standard reference for economic and financial analysis is Gittinger (1984).

these cases it would usually suffice to list the anticipated benefits and weigh them against the projected total costs. A cost efficiency analysis would then substitute for the traditional economic and financial analysis.

Step 6: Ensuring transparency and accountability

Full transparency and accountability are required by national legislation and donor requirements and are demanded by citizens and beneficiaries. Transparency and accountability also serve as safeguards against political interference, nepotism and favouritism, and they help achieve objectives. Annex 4 provides guidance on how to enhance transparency and accountability and assess whether the provisions made are adequate.

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Annex 2: Options for addressing access to term finance

Lack of collateral

Where financial institutions reject loan applications only or principally due to lack of collateral, four alternative interventions are conceivable:

- Develop collateral substitutes recognized by central bank regulations.
- If movable goods are to be financed, lease the goods, which does not require collateral (the lessor remains the owner of the good financed).
- Assist the government and the financial sector to create a guarantee company, with at least one window taking care of the investments.
- Create a guarantee facility specifically for the purpose of the project (Note: IFAD and other international financial institutions have poor experience with guarantee mechanisms arranged under development projects in terms of achieving the desired outcomes, and the transaction costs for arranging such mechanisms are substantial and often underestimated).
- Assist the government and the financial sector to create a guarantee company, with at least one window taking care of the investments.

Lack of points of service to cater for the needs of target groups

Where travel costs are prohibitive for the target groups and they need proximity to access financial services, the following options might be appropriate:

- An agreement with an existing financial institution that already offers appropriate services to similar clients in other regions of the country and is willing to open new branches closer to the target groups
- A competitive process to select one or more financial institutions to open new branches
- Financial contributions (on a declining basis) to the investment and operating costs of establishing branch offices that comply with the central bank's minimum regulations, along with contributions to product development and capacity-building, as needed.

Lack of term funds to grant term loans

Due to shortage of term funds, many financial institutions in developing countries limit term loans to important clients, which excludes micro-, small and medium-

sized entrepreneurs and poor people, who are often deemed to be risky. Under such conditions, the following options may be considered:

- Broker an arrangement with a refinance facility enabling the financial institution to access term refinance.
- Provide technical assistance to develop more attractive term deposit products, enabling the financial institution to put higher volumes into term loans.
- Establish a refinance facility for the proportion of the loans exceeding 12 months (which financial institutions can easily finance from own resources), either as a line of credit or on a case-by-case basis.¹¹

Risks in lending to the target groups perceived as too high

Even when poor people and small and medium-sized enterprises show better repayment performance than other clients, they are often perceived as highly risky.

Options to address such perceptions include:

- Special project guarantees, on a declining basis, for loans to project target groups, either through an interbank guarantee or based on a deposit in the financial institution
- Dialogue, studies, presentations, surveys and field visits to other financial institutions already serving the target groups with good results
- Specialized technical assistance to improve the risk management policies of the financial institution
- Special risk management training for staff of the financial institution
- Development of insurance products to be bundled with financial services.

¹¹ For conditions of credit lines, see the IFAD Rural Finance Policy (2009) and the IFAD Decision Tools (2010).

Annex 3: Examples of output, outcome and impact indicators

Output indicators

- Number of applications received by gender, geographic region, profession, age, legal status, type/category of grant sought and amount of grant sought
- Number and value of grants processed, approved and disbursed, by gender, geographical region, profession, age, legal status, type/category of grant sought and amount of grant sought
- Characteristics of enterprises supported (groups, cooperatives, communities, etc.) in terms of specified criteria (e.g. full-time and part-time staff employed, turnover, net profit, taxes paid, assets, machinery, debt, poverty levels, level of technology applied, etc.)
- Sources of planned funding of subprojects supported (own equity/budget resources, grant, other supports, external loans) by category of subproject
- Technical assistance and business development services delivered, by type of recipient
- Training and capacity-building measures for potential beneficiaries, by type of beneficiary
- Number of business plans financed

Outcome indicators

- Average processing time for applications approved and rejected (which requires collating dates of application and dates of decision in the database) and time between approval and disbursement. (Note: this is pertinent where efficient processing is made an objective of the matching grant component.¹²)
- Number of new businesses established, by subsector and gender
- Number and amount of incremental investments by type/category, sector or subsector
- Receipt of parallel bank or microfinance institution financing (short-, medium- or long-term for working capital and investments, lending rate/surcharge on prime rate, etc.)
- Changes in deposit base of recipients (in case a linkage programme with financial institutions also emphasizes a saving process)
- Product certification
- Incremental use of facilities supported

- Percentage of members of farmer groups, cooperatives or communities engaged in decision-making and annual general meetings

Impact indicators

- Improvement in turnover, net results before (and after) taxation, new business services rendered, quality of services, etc., by grant category and type of business
- Employment creation in terms of short-term and permanent part-time and full-time jobs created, by grant category and type of business
- Continued use and quality and costs of services of public facilities created
- Continued maintenance of the public facilities created
- Continued profitability of the enterprises (or business ventures) supported (after three years)
- Continued use of financial services, as indicated by value of deposits (at end of period) and bank loans received (cumulative over a period)
- Incremental tax revenues of government

Annex 4: Transparency and accountability measures

1. A project implementation manual (PIM) is in place before implementation starts, and regular updates are made during implementation.
2. Clear financial management rules and regulations are in place and are known and observed by staff.
3. Beneficiaries are always selected in accordance with guidelines and in a transparent and accountable manner, and there is no nepotism or favouritism.
4. Clear and comprehensive regulations for accountants are in place.
5. Terms of reference for auditors cover the following additional points:
(a) compliance with all terms and conditions as contained in the project agreement and the PIM in the grant allocation process; (b) observation of ring-fencing agreements related to different facilities or funds; (c) proper recovery of grants disbursed in cases of fraud or intentional or erroneous application of the grant terms; (d) proper functioning of systems-detecting double dipping; and (e) presence and proper functioning of fraud control mechanisms.
6. Terms of reference and roles for all staff, committee members and other decision-makers have been specified and communicated clearly to all persons concerned and are observed.
7. Duties have been clearly separated between staff and committees.
8. Decisions and actions are comprehensively documented on all applications, decisions, payments, post-disbursement monitoring and verification.
9. Regular and spot supervision of appraisal staff is practised.
10. All important documents, both electronic and paper, are properly stored and retrievable.
11. Staff and committee members are trained on important issues as and when needed.
12. Forms and procedures are tried and tested and in place before services start.
13. The 'four-eye-plus' principle is fully embedded everywhere: all decisions and transactions require the presence, approval or signature, as mandated, of at least two people, and all are fully documented.
14. The Project Management Unit publishes a complete list of grant terms and conditions in official and vernacular languages used in the area of intervention, along with a simplified leaflet with the main terms, references and contacts.

15. The Project Management Unit publishes the list of beneficiaries and core subproject details (name of recipient, location, subproject type, support category, total value of subproject, value of matching grants, type of other services rendered, date of grant agreement and disbursement) in an appropriate format, including a publicly accessible website. Preferably, the website contains information on all sites and subprojects financed, with corresponding photos and GPS coordinates.
16. All decisions, reports, recommendations, payments, etc., are clearly linked to a specific person, identified by name and position, and through a signature and a date.
17. All decisions, reports, recommendations, payments, etc., are fully documented, and the full documentation is accessible to authorized external reviewers at all times.
18. Approval and decision-making takes place in stages, and all decisions are verified by the next higher level and approved or rejected.
19. Spot checks of field staff work undertaken by the supervisor are made in accordance with standard audit principles, as are spot checks of all persons in charge of finance undertaken by the project director/chief executive officer and internal and external auditors.
20. Rotation of staff engaged in grant appraisal and approval is foreseen and practised.
21. Appraisal staff and members of the approval committee are forbidden to participate in any case involving relatives, friends, neighbours, etc.
22. The person nominated to receive complaints and deal with grievances of target groups and applicants keeps a sequential register of all complaints received and documents all steps, actions and decisions. This person makes an annual report on her/his activities and submits it to the project steering committee. Ideally, a summary list of all complaints received and dealt with is published on the project website.
23. A code of ethics has been elaborated and adopted and is being observed.



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