

Targeting in rural finance investments

A. Background

1. The 2009 Rural Finance Policy underscores IFAD's commitment to continually seek more effective ways of enhancing the access of rural poor people and smallholder farmers to a wide variety of financial services on an ongoing basis so that they can create a sustainable means of livelihood for themselves. IFAD emphasizes a market orientation and business approach in supporting the expansion of rural financial services and focusing on the demands of poor rural women and men through relevant financial services. In this context, the Rural Finance Policy highlights the importance of developing inclusive financial systems and fostering innovations to increase rural poor people's access to a wide variety of financial services, including savings, investment and working capital loans, insurance and remittances. The approach is derived from the IFAD Strategic Framework and from other major corporate policies.
2. Building on its experience, IFAD has made a policy commitment to explore ways to successfully overcome key constraints in agricultural finance for smallholders. In particular, it is seeking to foster innovation in agricultural microfinance, including through the use of risk transfer mechanisms to support rural livelihoods and technology among remote and dispersed populations. Given the many challenges inherent in rural areas, innovative products and delivery mechanisms are critical for meeting the varied needs of IFAD's target groups, including women, young people and indigenous peoples living in remote areas.

Example 1

Tejaswini Rural Women's Empowerment Programme, 2005-2018

This intervention covered selected districts in two states (Maharashtra and Madhya Pradesh), each of which had its own implementation unit. The largest programme components dealt with grassroots institution-building, rural finance, and livelihoods (mainly in agriculture) and enterprise development. The focus was on social mobilization through the formation of self-help groups as the key instrument for the empowerment of women based on the belief that self-help groups would not only enable women to gain access to financial services and take advantage of new or improved livelihood opportunities but would also provide a forum for the delivery of other services. During the life of the programme, the self-help group members were provided with different empowerment inputs and training in such areas as group management and accounting, decision-making and needs prioritization, conflict management, gender sensitization, income enhancement, legal awareness, and health and hygiene management.

The findings from the end-line study show that a significant proportion of poor and vulnerable women (72 per cent) belonging to marginalized social groups such as scheduled castes, scheduled tribes and other backward classes were organized into self-help groups under the Tejaswini Programme. Around 76 per cent of Tejaswini beneficiary households possessed a ration card. (These cards are issued to households that are below the poverty line.) In the control group, 61 per cent of the households that were not participating in a self-help group and 90 per cent of the households that did belong to a self-help group had a ration card.

The programme succeeded in creating a strong institutional network of self-help groups and federations across the six intervention districts. A majority of the self-help groups formed under the programme are still active and are pursuing one or more income-generating activities. The federations have gained the support of the district and state administrations, and several policy-level decisions have been taken to support the members' income-generating activities. The programme also succeeded in improving the food intake and nutritional status of the beneficiary households by motivating them to adopt healthy food habits and improved agricultural practices.

In Madhya Pradesh, the Tejaswini Rural Women's Empowerment Programme cooperated with a state initiative to introduce *Shaurya Dals* or "courage brigades" (a village-level committee made up of from five to eight members). The main purpose of the *Shaurya Dal* initiative is to mobilize the communities against gambling, alcoholism and domestic violence, which directly affect the welfare of women and their families. The Government of Madhya Pradesh plans to scale up this strategy to encompass the entire state.

3. **Geographic targeting.** The targeting strategy to be used will depend on whether rural financing is a subcomponent of a larger project or the core project. In the first case, geographical targeting will mainly be driven by the characteristics of the larger components, while in the second case, the priority levels used for geographical targeting can be complemented by a mapping and assessment of the availability and adequacy of financial services for IFAD target groups.

4. It is uncommon for projects not to have a geographical focus, and the lack of such a focus may compromise their ability to reach IFAD target groups. Special care to avoid elite capture should therefore be taken in the case of projects that lack an explicit rationale for geographical targeting. Partnerships with microfinance institutions with a focus on pro-poor interventions and tools can be helpful in identifying priority underserved areas with a high concentration of IFAD target groups.

Example 2

Ethiopia - Rural Financial Intermediation Programme II (RUFIP II)

The **development objective** of this programme was to provide rural households with sustainable access to a range of financial services, including savings mechanisms, credit, micro-insurance and money transfers.

Targeting strategy. The overall design for both geographic and people-based targeting is driven by the need to develop operationally sustainable rural financial institutions and systems with a focused mission to provide access to poor households.

- **Geographic targeting.** The programme supported the expansion of microfinance operations and the establishment of new rural saving and credit cooperatives in access-deficit and pastoral regions.
- A feasibility study was conducted in advance in collaboration with partners such as the United States Agency for International Development, the International Labour Organization and the Pastoral Forum, which have a comparative advantage in working with pastoral communities in these regions.
- **Self-targeting.** Microfinance institutions (MFIs) have missions that are oriented towards engagement with poor sectors of the population. Primary targeting functions, including gender targeting and quotas for women, are built into the business and operating procedures of MFIs and rural savings and credit cooperatives, and this results in the self-exclusion of most of the non-poor population. MFIs generally employ the same financial technology as is used by the Grameen Bank (also known as “the bank for the poor”), which includes: group-based lending with group collateral; compulsory savings; small loans with a gradual increase plotted out over four or five loan cycles; client screening through local contacts and meetings; and the formation of groups oriented towards the selection of poor households.
- **Monitoring.** Some MFIs are using the Progress out of Poverty Index scorecard methodology to identify clients and keep track of their progress. The institutional development support provided under the programme is also aimed at sharpening the relevant targeting strategies, along with increasing the proportion of women clients.
- **Gender targeting.** Ethiopian MFIs have a clear focus on reaching out to women. Where necessary and appropriate, provision was made for the introduction of quotas for women and especially for vulnerable women.

5. **Self-targeting.** Self-targeting measures are put in place to avoid elite capture and incentivize the participation of IFAD target groups. Several methodologies have been developed by microfinance organizations to ensure the participation of IFAD target groups and avoid the participation of the better-off. For example, in a number of African countries, IFAD-supported projects have used the village savings and loan association methodology developed by Care International for the creation of small savings and loan groups composed of women. This methodology has even been used successfully for groups composed primarily of non-literate members. Only internal savings are used for loans to group members; outside funds are not accepted. At the end of the year or during a significant holiday, all group funds are distributed back to all the members and a new cycle starts.
6. In addition, when evaluating financial products and services that will be promoted by the project, it is important to assess how pro-poor they are. One way to do this is to determine minimum balances for basic deposit products and loan sizes for loan products and/or matching requirements.

Example 3

The Belize Rural Finance Programme

Objective. The overarching goal of the Belize Rural Finance Programme (BRFP) was to contribute to the reduction of poverty and extreme poverty levels among the rural population – men, women and youth – by increasing the incomes and assets of small farmers and the rural population through improved rural financial services.

Main target group. The chief target group was composed of 11,000 rural households (approximately 40,000 persons), out of which 4,000 households (roughly 21,000 people) were extremely poor. It also included rural wage workers and indigenous communities. Four main subgroups were identified, namely, the poor, the very poor, youth and women. Youth and women were singled out as special categories.

The 2017 completion report concludes that the BRFP can be considered to have been a remarkable success in terms of its objective of putting in place an institutionally driven, sustainable system of direct **inclusive access to financial services for the rural poor in Belize** and of catalysing the delivery of such services to thousands of rural households across the country.

Targeting. The programme was to be innovative, both in terms of **piloting an innovative housing-based targeting tool** and in terms of using a public-private partnership as the programme model under which credit unions were to receive institution- and capacity-building support to help them expand their credit operations, diversify their financial services and adapt those services to the needs of the target population. The BRFP employed a set of eligibility criteria to assess the level of poverty of rural households and determine their eligibility to participate in the programme.

A set of six prima facie indicators were applied that were directly linked to housing conditions. These indicators served as a composite index for wealth measurement.

- (i) A prospective shareholder in this scheme was considered to be very poor if he or she resided in a house that had: (i) no internal partitions; (ii) a dirt or wooden floor in the kitchen area; (iii) a thatched roof; (iv) no in-house piped water; (v) no electricity; and (vi) no toilet or only an outdoor toilet. The face value of the house was not to exceed B\$5,000.
- (ii) A person was considered to be poor if he or she lived in a house with: (i) at most one partition; (ii) a zinc roof; and (iii) a (partly) concrete floor in the kitchen or kitchen area. The houses of persons in this category had indoor piped water, electricity and an indoor toilet. The face value of the house was not to exceed B\$10,000.
- (iii) An applicant was not considered to be poor if his or her house had: (i) more than one partition; (ii) a concrete or tiled kitchen floor; (iii) indoor piped water; (iv) electricity; and (v) an indoor toilet. The overall face value of the house usually exceeded B\$10,000.

The findings of the evaluation confirmed that the eligibility criteria were largely valid. The BRFP can be credited (in terms of eligible members) with helping the six credit unions obtain at least 6,988 members through its share account/savings incentive programme, of which a full 57 per cent were women. Young people constituted 17 per cent of the members, and persons categorized as being very poor comprised 35 per cent (far exceeding the logframe performance indicator of “at least 15 per cent are indigent or very poor”).

B. Empowerment and capacity-building

7. Village-based savings and credit cooperatives are a clear example of a microfinance approach that is supported by successful empowerment and capacity-building components, which include: (i) organizing village women into small groups; (ii) setting up a participatory group structure to manage the group; (iii) determining the amount to be saved weekly or monthly; and (iv) providing loans from the saved capital. These cooperatives receive extensive capacity-building support to assist them in managing their accounts, evaluating credit applications, and granting and collecting on loans.
8. Another important strategy is to work with MFIs and credit unions that are willing to expand outreach to the poorest and underserved areas by providing incentives, capacity development and technical support for the design of tailored products.

C. An enabling environment

9. Partnerships with initiatives in which microfinance is already being used as a core element for the intervention can be an important means of enabling food targeting. For example, graduation programmes that have a strong financial literacy component can provide poor people with the skills they need to operate a microenterprise in combination with several other interventions, including an intervention focusing on consumption smoothing in order to allow them to take advantage of financial services such as credit without running the risk of compromising their food security and livelihoods. In addition, rural finance projects or project components can use the graduation targeting and transfer elements of

safety-net programmes and then introduce entrepreneurial activities through training, an asset grant and credit. This process can support people in their efforts to develop income-generating activities and build assets that will help them to move out of extreme poverty.