

**PROJECT COMPLETION REPORT VALIDATION
RURAL FINANCE SECTOR PROGRAMME
PEOPLE'S REPUBLIC OF CHINA**

A. Basic Data

| A. Basic Project Data | | | Approval (US\$ m) | | Actual (US\$ m) | |
|--|--------------------------------|--|--------------------------|-------|---|-----|
| Region | Asia and the Pacific | Total project costs | 21.3 | | 30.4 | |
| Country | People's Republic of China | IFAD Loan and % of total | 14.7 | 69% | 15.9 | 52% |
| Loan Number | 634 | Borrower | 0.406 | 1.9% | * | |
| Type of project | CREDI | Local government | | | | |
| Financing Type | E | Rural Credit Cooperatives (loan) | 6.1 | 28.6% | * | |
| Lending Terms ¹ | HC | Rural Credit Cooperatives Unions (grant) | 0.097 | 0.46% | * | |
| Date of Approval | 21 April 2004 | China Banking Regulatory Commission (grant) | 0.024 | 0.12% | * | |
| Date of Loan Signature | 27 May 2004 | Beneficiaries | | | | |
| Date of Effectiveness | 13 September 2005 | | | | | |
| Loan Amendments | 1 | Number of beneficiaries | 120,000 rural households | | Direct: 36,224 HH Indirect: 866,808 HH | |
| Loan Closure Extensions | 1 | Cooperating Institution | UNOPS | | UNOPS/IFAD | |
| Country Programme Managers | Martens T. Rath S. Jatta | Loan Closing Date | 31 March 2010 | | 30 September 2010 | |
| Regional Director(s) | T. Elhaut | Mid-Term Review | | | April 2007 | |
| PCR Reviewer | L. Kellens | IFAD Loan Disbursement at project completion (%) | | | 95.74% | |
| PCR Quality Control Panel | A. Brubaker A. Lambert | | | | | |
| Please provide any comment if required | | | | | | |
| *The PCR does not provide a full picture of the actual financing per co-financier. | | | | | | |

Sources: Report and Recommendation of the President (2004); PCR (2011)

¹ According to IFAD's Lending Policies and Criteria, there are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms with a rate of interest per annum equivalent to 50% of the variable reference interest rate, and a maturity period of 20 years, including a grace period of 5 years; and (iv) loans on ordinary terms with a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, and a maturity period of 15 to 18 years, including a grace period of 3 years.

B. Project Outline

1. The Rural Finance Sector Programme (RFSP) was designed with the overall objective to ensure that rural financial services contribute effectively and sustainably to reducing poverty. Its specific objectives were to ensure that (i) rural households, including poor households, have better access to financial services and effectively make use of them to improve their living standards; (ii) Rural Credit Cooperatives (RCC) policy reforms have been successfully tested in the programme area and are being implemented in IFAD-financed interventions elsewhere; (iii) improved institutional and operational management capacity in programme RCCs is applied on a larger scale and contributes to improving cost-effectiveness and profitability; and (iv) modalities to resolve the problem of non-performing loans have been tested and applied on a wider scale.

2. The programme was to be implemented at the national level to support the China Banking Regulatory Commission (CBRC) and the Rural Credit Cooperatives Unions (RCCUs) in testing a number of policy and institutional reforms. Those tests were to be undertaken in selected geographical areas before applying the reforms at a national scale. Design provided for pilot activities in the project areas of on-going IFAD-funded interventions in order to ensure that microfinance policies are complemented by both agricultural and social support services and infrastructure development. The programme would initially be implemented in Chongqing and Shaanxi Provinces.

3. The programme was expected to benefit about 120,000 poor rural households. Several of the above-mentioned policy reforms were expected to improve the access of poor households to loans, especially in terms of micro and group lending and loans for women. Other policies were to help to transform the RCCs into sustainable financing institutions, which was in the interest of all their clients but especially the poor for whom RCCs constitute the only source of formal deposits and loans. The programme would support those policy reforms and assist in on-going or planned policy adjustments with a view to help refining implementation modalities and taking care that new policies have adequate poverty and equal access/gender dimensions.

4. The programme comprised five components:

- (a) **policy development** (11 per cent of total base costs) which focuses on assisting on-going or planned policy adjustments, refining implementation modalities, and ensuring that new policies have clear gender and poverty dimensions;
- (b) **institutional development** (19 per cent of base cost) focusing on infrastructure and equipment for RCCs, staff training and the legal structure;
- (c) **operational development** (4 per cent of base cost) to support the accounting system and policies and the staff incentive system;
- (d) **financing** (60 per cent of base cost) through the provision of credit lines to help catalyse innovative microfinance practices and to demonstrate the operational viability of well-designed credit programmes to the RCCs; and
- (e) **programme management** (6 per cent of base cost).

5. The principal programme partners were the networks of RCCs that were federated up to the province level, but do not have a national apex. The CBRC and provincial RCCUs in the two programme provinces of Chongqing and Shaanxi were the principal implementation partners of the programme. Programme Management Offices (PMOs) were established within provincial RCCUs and were expected to receive strategic and policy guidance related to RFSP from the CBRC, and to manage and coordinate operations undertaken by county RCCUs at field level. A National coordination and monitoring office (NCMO), responsible for providing policy guidance, was planned to be established and located at the CBRC head office.

6. Programme implementation started effectively in September 2005 when, at the same time, the rural financial reform started to spread rapidly over the country. The reform programme driven by CBRC pushed the reform of RCCs into rural cooperative banks and rural commercial banks (RCBs).

This process accelerated the centralisation of the RCC network, and CBRC phased out of its role in micro-managing the overall RCC network, affecting the identified management structure of RFSP. Moreover, a microfinance policy was introduced in December 2006, defining two new types of financial institutions: microcredit companies and the village banks. In order to further adapt the programme support to the rural financial reform in China, the mid-term review (MTR), fielded in April 2007, proposed a number of changes and implementation modalities affecting programme management set-up and the type of expected outcomes and outputs under related components. Furthermore, two additional counties were included in the programme in the Shaanxi province.

C. Main Assessment – Review of Findings by Criterion²

7. Over the past 30 years, China has emerged as one of the world's leading powers, and it boasts the world's second largest economy. The government has stepped up investments in rural areas to meet the growing market demand for agricultural products and to improve the livelihoods of rural people. One result has been a dramatic decrease over the last 30 years in the number of people living in absolute poverty. China's Gross Domestic Product (GDP) was nearly US\$5 trillion in 2009 (almost the double of 2006), and annual GDP per capita growth reached 8.5% in 2009. This positive economic climate, in collaboration with the on-going rural finance reform, challenges the attribution of the rural poverty impact measured in the programme area.

Project Performance

C.1 Relevance

8. RFSP was conceived as a new type of IFAD intervention in China, being the result of years of collaboration between IFAD and the network of RCCs (which were the financial intermediary for most IFAD interventions). Programme design followed the recommendations of IFAD's Thematic Study on Rural Finance in China conducted in 2000, which emphasized the need for support to the rural finance sector to turn RCCs into sustainable microfinance institutions with a poverty- and gender-sensitive approach in order to facilitate the access of poor rural people to credit and other financial services. The objectives of RFSP were relevant to the specific context of the Chinese financial sector and the corresponding national reform strategy³ headed by the Government of China, and in line with IFAD's strategic objectives formulated in the 1999 COSOP for China.

9. To support policy and institutional development, programme design provided for support at both macro and meso-level of the rural finance sub-sector. Supporting CBRC at central and provincial level as the management and supervision agency of the RCC network, was highly strategic and appropriate to stimulate the development of a pro-poor microfinance network. Besides, focusing on strengthening the RCCs was highly relevant given the important role they had in the provision of financial services in rural areas and their potential to contribute to poverty reduction. In particular, through the programme activities for the development of poverty-sensitive microcredit products, RCCs would be enabled to provide financial services in line with the assets and capabilities of the beneficiaries. With the provision of introducing a NCMO, the feedback loop would be ensured.

10. However, design did not clearly stipulate what specific policy was supposed to be supported by the IFAD loan and under-estimated the challenges that RCCs as implementing agencies could face. Moreover, the objective of policy consultation was too ambitious, especially in view of the limited knowledge of the programme stakeholders about each other's management and operation mechanisms. Besides, the programme had a sectoral focus and intended to increase the volume and improve the quality of financial services for the poor. Financial services were also needed by beneficiaries of other

² For the definition on the criteria, please refer to the Evaluation Manual available for download at the following web-link: http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf

³ A critical step in this regard was the establishment of the regulatory body CBRC creating an enabling environment for the development of RCCs.

IFAD-funded projects working on irrigation, micro enterprise, roots and tubers promotion, constituting the demand side of financial services. Unfortunately, no clear linkages with other on-going IFAD-funded projects⁴ were spelled out neither at design nor during the implementation stage which led to missed opportunities for synergies and collaboration.

11. The Project Completion Report (PCR) underlines the start-up problems of the programme, referring to serious design gaps, but without providing sufficient explanation which gaps were identified and how they were addressed during implementation. Design acknowledged the challenges in targeting the poor and women through credit activities, but did not provide for a sufficient elaborated strategy to address this issue. It was simply assumed that programme benefits of activities undertaken in provincial poverty-stricken counties would flow to the poorest households. Difficulties were also reported in mobilising programme-based resources to tackle issues that were centrally regulated during the relatively short programme implementation period. The Appraisal report did not include a logical framework, and baseline surveys were not completed by mid-term, making it difficult to compare the status of the borrowers as compared to the wider section of village societies.

12. Moreover, as described in paragraph 6, the programme context changed significantly at the time of start-up, implying that the initial programme design was no longer the most appropriate. The completion report does not provide for a sound analysis of this important context change, which did affect the internal relevance of the programme and its approaches. The MTR, conducted in 2007 before completion of the second implementation year, proved to be appropriate to introduce a number of changes in programme outputs and activities given the on-going financial reform in China and to revisit programme set-up. In particular, it strengthened the focus on operational activities for the remainder part of the implementation period (through the reallocation of resources initially allocated for legal structure). Furthermore, through M&E support, the MTR supported the reconstitution of the logical framework which however did not contain quantified targets given the nature of the programme interventions (mainly focusing on measures and actions of RCC development efforts).

13. This validation recognises the novelty of the approach introduced by IFAD, building on its past experiences working with RCCs in difficult areas, and its high relevance for the country. However, design did underestimate the challenges and rapidly changing context, leading to a less satisfactory implementation. Therefore, IOE rates relevance as moderately satisfactory (4), which concurs with the assessment made by the Programme Management Department (PMD).

C.2 Effectiveness

14. According to the completion report, programme activities have contributed to strengthened RCC capacities and improved access of the target population to RCC services. Six county RCCUs or RCB sub-branches benefited from the programme investments, mainly in institutional and operational support and credit lines for microcredit lending. However, due to the characteristics of the RCC reform process, quantified physical targets have not been set for the majority of the programme activities and outputs. Financial targets were set through the AWPB-cycle and assess effectiveness based on the financial achievements. In doing so, the PCR argues that credit-lines have been effective (100% of implementation target) likely because of the good compatibility of the programme microcredit lending based on the RCC own methodologies. Policy development and operational development are seen as less effective, partly because of the cumbersome procurement procedures for RCCs to procure consultancy services and outsourced training with IFAD finance.

15. Unfortunately, the completion report does not provide for an explicit effectiveness assessment of the specific objectives of the programme as defined in the President's Report, but it does present various outputs and outcomes under each programme component. This data are however reclassified

⁴ The on-going projects during RFSP design were the Qinling Mountain Area Poverty-Alleviation Project, the West Guangxi Poverty-Alleviation Project, and the Environment Conservation and Poverty-Reduction Programme in Ningxia and Shanxi.

in this validation to provide for an assessment of effectiveness in line with the definition and standards employed in the IOE Evaluation Manual.

16. *Specific objective 1: Rural households, including poor households, have better access to financial services and effectively make use of them to improve their living standards.* As a means to improve access of poor households to financial services, RFSP supported product development better suited to the needs of the borrowers. Product development took off after the MTR, with the provinces developing a total of 29 new loan products, of which 26 products were applied and rolled out through the provincial networks. The majority of those loans were used for crop growing, livestock raising and the establishment of small rural enterprises. Other products, such as savings products and intermediate services, were designed and tested in the rural market. A total of CNY 204 million was disbursed and revolved, reaching 36,224 direct beneficiary households,⁵ of which 47% were reported as poor and low-income and 27% as female loan contract signers. However, the completion report does not provide any information on the loan size or the number of repeat borrowers. The effects on improved living standards are reviewed in detail under section C.4.

17. Despite the development of pro-poor products, targeting of poor households has fallen well behind the targets and the normal IFAD approach of targeting low income households. The RCCs were the main mechanism for increasing credit access. Their focus is on higher income borrowers and there has been strong resistance to lend to the primary project target group, particularly in the light of reforms that require RCCs to avoid risky lending.

18. *Specific objective 2: RCC policy reforms have been successfully tested in the programme area and are being implemented in IFAD-financed interventions elsewhere.* Eight sessions of policy consultation between the two programme rural finance networks were recorded, mostly to share experiences in rural lending and programme implementation management. There was no official policy consultation to the central regulatory agency as suggested by the Appraisal and MTR. The CBRC was unable to play its planned central coordinating and championing role, due to a redefinition of its regulatory relationship with RCCs, and no alternative policy body was identified that could perform a similar function in the project. Although IFAD proposed the establishment of a new knowledge exchange platform to fill part of the function originally planned for the CBRC, this proposal was not picked up by the Government partners. Furthermore, the programme supported the implementation of a flexible and decentralised pricing policy for the Shaanxi RCCU and Chongqing RCB, but the completion report argues that this was taking place in any RCC network, also the ones not supported by RFSP. Despite the provision of programme supported training, no substantial fluctuation in lending interest rates was noted in the rural area. Such stable rural lending rates tended to be more or less conditioned by the limited mark-ups of rural income generating activities in the programme counties.

19. *Specific objective 3: Improved institutional and operational management capacity in programme RCCs is applied on a larger scale and contributes to improving cost-effectiveness and profitability.* Institutional development was to be realized at design through improved infrastructure and equipment and support to RCCs in changing their legal structure. However, the programme proved not to be in place to support the latter, mainly given the speed of the re-organization at national level and the changed role of CBRC. On the other hand, through the renovation of 78 service outlets in the two provinces, grassroots level RCCU/RCB sub-branches felt that the overall institutional image improved resulting in securing the customer base for competition. The completion report highlights improvements in operating self-sufficiency of both provincial networks,⁶ which is reaching now the level of medium sized financial institutions. Furthermore, the PCR notes improvements in operational

⁵ This number seems rather low given that the scope of the programme (focusing solely on rural finance at macro level and meso level). For information, the West Guangxi Poverty-Alleviation Project reached through its rural finance component (using the RCCs) 59,227 households (IOE Completion Evaluation, 2010).

⁶ For Chongqing from 120% in 2005 to 126% in 2009, and for Shaanxi from 115% to 152% during the same period.

efficiency in the programme counties since the start of RFSP. In 2005, the average of active borrowers per credit officer increased from 160-250 to about 600-800 borrowers in 2009.

20. *Specific objective 4: Modalities to resolve the problem of non-performing loans have been tested and applied on a wider scale.* According to the completion report, non-performing loans dropped to a more manageable level from 12% in 2005 to 3% in Chongqing and from 17% to 13% in Shaanxi. However, the PCR does not provide any additional information on how this was achieved and what has been done in terms of replication and up-scaling.

21. Overall, the achievement of the programme objectives have been far from sufficient for some objectives, while some progress was made against others. Therefore, this validation rates the programme effectiveness as moderately satisfactory (4), in line with the PMD rating.

C.3 Efficiency

22. The time lapse between loan approval and loan effectiveness was 16.8 months which is well above the regional average of 9.2 months and the IFAD average of 12.4 months. The implementation period was extended with six months, bringing the current completion date at 31 March 2010 and the current closing date at 30 September 2010.

23. Due to the appreciation of the Chinese currency and the SDR against the US Dollar during implementation, the programme was able to advance significantly more in financial terms than in physical terms. The total programme cost was estimated at US\$31.0 million, while the IFAD loan was approximately worth US\$17.0 million instead of US\$14.7 million at the time of appraisal. According to the completion report, the programme disbursed approximately US\$30 million (or 97% against adjusted financing) by March 2010, of which the IFAD loan amounted up to US\$15.9 million (90% of adjusted financial value). Therefore, the IFAD contribution to the total financing was weighted for 52% instead of 70% at appraisal, and final counterpart finance averaged at 48% as compared to the initially 30%. During implementation, both provincial RCCUs/RCBs provided continued financial support through due matching funds to support the programme implementation. However, the completion report does not provide further detailed information on the net value of the contributions delivered by the different co-financiers.

24. In view of the difficulties expressed by both provinces in executing a number of activities related to consultancies, studies and policy development, the MTR proposed some adjustments in reducing the initial allocations for training and consultancies at provincial levels and increasing the credit line at county levels. The re-allocation plan was agreed by both provinces, but due to lack of understanding of the procedures, Shaanxi submitted only in 2009 the request for reallocation which was approved by IFAD in October 2009, two years after the MTR. The completion report does not mention how Chongqing went about this. Moreover, RFSP efficiency has been hampered by a high level of operating costs amounting to 54%.

25. Programme efficiency has been assessed by the completion report in terms of the cost ratio of inputs to outputs. According to the completion report, IFAD loan proceeds allocated to provincial RCCUs/RCBs were quantitatively insignificant compared to their assets. Typically, allocations for county RCCU/RCB were mostly used as credit line, which represented on average 3% of the total county loan portfolio. If efficiency were to be measured by unit of money spent, the IFAD loan contributions would tend to be too small to be weighed as efficient. However, according to the PCR, efficiency can be found through the leverage of capacity building, which definitely helped to bring new concepts and notions in rural lending.

26. Given that about one third of total programme costs were to be spent on policy development and for improving the institutional and operational capacity of the RCCUs/RCCs, no programme wide economic rate of return has been estimated as it would be largely dependent on non-directly verifiable assumptions, such as the relationship between the liberalisation of the interest rate and the volume of

loans outstanding or between the volume of staff training and the profitability of RCCs. While the return on investments undertaken by beneficiaries with the loans was calculated at Appraisal, the completion report does not provide any new estimate. However, the completion report provides detailed information on the return on equity and the return on assets, which both improved significantly during programme implementation.

27. Interesting to note is below table who benchmarks RFSP with two other IFAD-funded projects in China on-going in the same period and having a rural finance support component. Based on this data, it seems that RFSP did reach a much smaller number of direct beneficiaries with more financial means than did the other two projects.

| Project | RF Costs CNY million | Total Project Cost CNY million | Proportion investment in RF | Borrowers reached by RF |
|--|---------------------------------|---|--|--|
| Qinling Mountain Area Poverty-Alleviation Project | 129 | 695.64 | 19% | 459,300 |
| West Guanxi Poverty-Alleviation Project | 101 | 730 | 14% | 239,000 |
| Rural Finance Support Programme | 126 | 126 | 100% | 36,224 |

Source: IOE Interim Evaluation Qinling Mountain Area Poverty-Alleviation Project

28. Taking into account the financial progress against the physical progress, the high operational costs and the slow start-up, this validation rates efficiency as moderately unsatisfactory (3), which deviates negatively from the assessment made by PMD.

Rural Poverty Impact

C.4 Impact

29. The completion report presents some data collected from two RIMS surveys conducted in 2007 and 2009, showing the changes noted at the beneficiary household level. It is important to acknowledge the limitations of this data given that no the baseline has been conducted and that no control groups are included in the RIMS surveys.

Household income and net assets

30. Despite the implicit results chain of the programme (improved access to financial services will allow rural households to engage in income generating activities which will improve their income), no specific data has been collected regarding household income and income generating activities. Using the RIMS data, the PCR suggest that income increased in the programme villages; for example, in Chongqing, poor or low-income decreased from 16% in 2007 to less than 5% in 2009; in Shaanxi, surveys recorded 11% of poor and low-income in 2007, which was reduced to about 8% in 2009. However, these improvements seem to correspond with the overall poverty reduction in the country.

31. Through its support to the RCC/RCB networks, RFSP contributed to an increased access to financial services. According to the RIMS data, access to RCC loans by rural households increased from 36% in 2007 to 42% in 2009 for Chongqing and from 37% to nearly 60% in Shaanxi for the same period. Lending for on-farm and off-farm income generating activities tended to be more or less conditioned by the limited mark-ups of rural income generating activities in the programme counties. Increased profit margins reported by programme counties did not seem to be a result of more sophisticated pricing, but likely due to the non-interest income and non-agricultural lending. Nevertheless, the percentage of household having a savings accounts increased dramatically from 57% to 90% in Chongqing and from 49% to 70% in Shaanxi.

32. Though there was no direct investment in improving the market accessibility for the household beneficiaries, the two surveys recorded strong and increasing involvement of farmers in income generating activities related to marketing, transport and sales. In Chongqing, 83% of farmers reported such involvement and practice in 2007 and 98% in 2009; similar trends were observed for Shaanxi, with 84% and 97 % of farmers in 2007 in 2009, respectively reporting these positive developments. The above findings suggest that RFSP credit support assisted farmers' efforts in income generation and market access, although clear attribution is not possible.

33. With regard to household assets, the results generated from the RIMS surveys show an increase in assets, such as having a TV and a motorcycle. Positive changes in farm tools can be observed, moving from mainly hand tools in 2007 to animal-driven or machine powered tools in Shaanxi, and animal-driven tools in Chongqing. The emphasis on animal driven tools in Chongqing was explained by the small plots in the predominantly mountainous area. With regard to livestock, the 2009 survey observed that more households were able to raise larger animals (cattle and pig ownership increased from 22% to 61% in Chongqing).

34. Based on above assessment, IOE rates the programme impact for household income and net assets as satisfactory (5). This rating is concurs with the PMD assessment.

Human and social capital and empowerment

35. RFSP has substantially invested in RCC staff training. In Chongqing, 3,260 staff were reported being trained of which 27% were female participants; in Shaanxi, 2,600 staff received training of which 15% were female. Training topics and areas ranged from integrated operational networking, banking settlement, microcredit lending, risk management, new loan product piloting, small and medium enterprise lending, loan categorization, branch performance, savings mobilization, accounting application, portfolio quality control, analysis of operational efficiency and financial sufficiency. Those actions were part of the RCCU/RCB own capacity building but were strengthened through programme support; they have certainly helped improving the human assets of the RCC/RCB networks in the two programme provinces.

36. Conceptual introduction and exercise of market segmentation, lending with poverty and gender sensitivity or with differentiated services have contributed to the empowerment of the vulnerable groups such as poor, women and returned migrant workers. According to the completion report, their socio-economic status tend to be improved. For example, the surveys indicate an increasing trend of women signing RCC loan contracts and, especially, becoming savings account holders. For the latter, an increase of 40% was noted for female savings account holders in Chongqing, which however, seems to be still on the lower side compared to the results of the Qinling Mountain Area project (see paragraph 56).

37. Programme impact on human and social capital and empowerment is rated as moderately satisfactory (4), which is fully in line with the PMD assessment for this impact domain.

Agricultural productivity and food security

38. Based on results from the surveys, the completion report highlights an increased percentage of households facing increased yields in their agriculture production. The results are difficult to interpret, although the completion report explains the improvements as results from a combined support of government programmes and a more diversified market for local farmers. However, according to the completion report, there is no doubt that direct beneficiaries who benefited from improved access to financial services gained increased opportunities of using the loans for income generating activities.

39. The completion report highlights findings of the 2007 and 2009 surveys in terms of food security, child malnutrition and safe sanitation. According to the survey results of 2007, approximately

2% of households in Chongqing had faced a single and short food shortage and half of these people experienced a second food shortage. There was no report of households experiencing food shortages in 2009. Overall, children's nutritional status improved significantly between 2007 and 2009. For example, stunting decreased significantly in Chongqing, from 52% to 35%. In Shaanxi however, it did decrease only slightly. The presence of chronic malnutrition in the two provinces seemed to be caused by local food structure, where nutritive balance may need to be re-assessed. Access to save water increased significantly in both provinces, to almost 100%. However, safe sanitation did decline in Shaanxi from 53% in 2007 to 50% in 2009 because of the long-lasting drought in the northern programme counties where water use was reduced to cover drinking and irrigation needs first.

40. Programme impact on agricultural productivity and food security is rated satisfactory (5), which corresponds with the PMD rating.

Natural Resources and the environment

41. Given the focus of the programme on policy reforms and access to financial services, no direct investments were planned to address the environmental impact. According to the President's Report, an increase in chemical inputs was to be expected given the expected allocation of the loans for agricultural development.⁷ However, the completion report does not provide any information in this regard. It did however mention that no negative impact was observed related to the improved access to safe water and safe sanitation, which should reflect the notions of protection of water sources and sustainable utilisation. In the absence of sufficient data to assess the impact of the programme on natural resources and the environment, the validation does not rate this impact domain.

Institutions and policies

42. RFSP intended to strengthen the RCC/RCB institutional capacity and to help improving management performance and operational efficiency at county and grassroots levels. The completion report refers to trend analysis conducted by the programme which indicates that the RCC/RCB network improved considerably during the implementation period. All institutions appear to have strengthened their institutional capabilities and services. Total assets of each provincial network experienced an increase of more than 100%, and programme counties gained 80%. Total savings and total credit volumes followed the similar trend, except for credit in the programme counties in Chongqing, where a moderate increase of 18% was recorded. The completion report attributes this lower performance to the re-orientation of portfolio investments. Furthermore, coverage of both savings and credit customers observed an increase percentage-wise, except in the county programmes of Chongqing.

43. During the programme implementation period, RCC/RCB networks reduced their grassroots service outlets nation-wide in average by 10 to 15% for reasons of operational efficiency. However, RCC/RCB networks in Shaanxi and Chongqing only reduced their service outlet by 5%, but invested in the capacity of their network services. In both provinces, all the counties and districts were covered with RCC/RCB services through 39 sub-branches, 1,800 service outlets and 14,000 employees in Chongqing and 107 sub-branches, 3,000 service outlets and 19,000 employees in Shaanxi. All of the county sub-branches, including the programme counties, were computerized and all the service outlets at the grassroots levels were computerized and connected to the provincial network system. RFSP

⁷ Potential environmental risks in the area of rural finance is well stated in IFAD's environmental and social assessment procedures (2008). The most important potential negative impact of the provision of credit in environmentally sensitive areas is that it may accelerate the degradation of natural resources when traditional practices lead to their over-exploitation. If credit leads to, for example, the purchase of pesticides, bigger chain saws, more livestock, or better boats and nets, there is a risk of negative environmental impacts. In the long run, if credit is not accompanied by education about improved natural resources practices and incentives for their application, the effect on the farmer's incomes may also be quite negative as depleted resources are less able to sustain the poor.

resources were used for renovating and modernizing the grassroots offices and were greatly appreciated by both RCC management and rural clients. Either for the whole provincial network or for the programme county sub-branches, an improved capacity per outlet and service coverage were reported which in turn led to an increase in the numbers of customers in the RCC's savings and credit business. However, Chongqing faced a slowdown in lending operations which was probably caused by the above stated reasons (see paragraph 42).

44. As underlined in paragraph 18, the programme did not conduct the official policy consultation as to the central regulatory agency as suggested by the Appraisal and the MTR. The latter proposed an alternative policy consultative mechanism after the retreat of CBRC to ensure that any systematic innovations or operational breakthroughs obtained by the programme would be forwarded to policy makers of sound practices in the national RCC reform. However, the completion report does not provide more information or analysis on why this was not done.

45. Based on the above-mentioned assessment, IOE rates programme impact for institutions and policies as moderately satisfactory (4), which does not differ from the PMD rating for this impact domain.

Overall impact on rural poverty reduction

46. Summing up the assessment of the various dimensions of rural poverty reduction, overall rural poverty impact is rated moderately satisfactory (4), which is one point lower than the overall PMD rating. The difference can be explained by the weight given by the validation to the impact on institutions and policies, being a concrete objective of the programme. Moreover, recognising that attribution of impact to project inputs is problematic and that the project has contributed to some extent to improved living standards of the rural poor, there are indications that the project has contributed less than expected.

Other Performance Criteria

C.5 Sustainability

47. The PCR provides a very detailed assessment of RFSP sustainability by looking at various features. The strong alignment of programme activities with the mainstream of rural financial reform in China contributes to the expected *political sustainability* of the rural financial institutions and networks. The programme could be perceived as a kick-start to obtain investment stability and continuity during and after programme completion. Institutional capacities were strengthened and Chongqing RCB and Shaanxi RCCU became the number one financial institutions in terms of agriculture and rural lending, rural savings mobilisation and service extension network. The establishment of a more stable and efficient institutional image of those rural financial institutions is likely to support their institutional sustainability.

48. In assessing the *financial sustainability* of the RFSP supported financial networks, the completion report highlights the sound return on equity achieved by both networks in 2009, despite the ups and downs of the global financial crisis and the uncertain economic conditions during the year. Both networks reported improved profit margins, rising from 11% in 2005 to 13% in 2009 for Chongqing and from 11% to 32% in Shaanxi. Financial self-sufficiency improved substantially, and, as stated in paragraph 20, the percentage of non-performing loans decreased during programme implementation to a more manageable level.

49. Given the increased market competition, the Chongqing RCB and Shaanxi RCCU networks are focusing now on consolidating their rural market focus and exploring expansion into emerging market segments of SME lending and individual credit, which is challenging their *technical sustainability*. This general trend increased the importance of market-driven product development and

effective pricing techniques, which has been supported by RFSP. However, investments in this regard should be kept among the development priorities of Chongqing RCB and Shaanxi RCCU.

50. The networks supported by the RFSP demonstrate strengthened institutional, financial, operational and technical sustainability. Moreover, related capacity building is expected to be continued by Chongqing RCB and Shaanxi RCCU with their own resources. Therefore, IOE rates the programme's sustainability as satisfactory (5), which differs positively from the PMD rating (4).

C.6 Pro-Poor Innovation, Replication and Scaling-Up

51. Innovation. Programme design highlighted that RFSP is the first policy-support programme implemented by IFAD in China. Moreover, IFAD's shift of implementation responsibilities for financial services away from lending through PMOs staffed with government employees and towards a financial institution was a first among rural finance interventions in China and among IFIs. During implementation, provincial RCCUs explored opportunities to innovate by integrating the programme support resources into the RCCU or RCB's overall development.

52. Innovations were mainly cited in loan product development for which RFSP introduced and promoted the lending to vulnerable groups such as women, the poor and returned migrant workers. For example, the PCR highlights the introduction of a new loan product in Shaanxi, called "Women Starting Their Business". This product helped targeting rural women entrepreneurs by easing credit access for female borrowers. In Chongqing, programme RCCUs/RCB sub-branches explored efficient ways of extending the credit services to grassroots level through a mechanism of broker lending. By creating a network of farmer credit agents at village level who acted as credit brokers between lenders and borrowers, RCCUs/RCBs were able to lend to farmers in remote villages at a low operating cost. Meanwhile, an incentive-driven credit screening by the brokers helped lowering the associated risks and provided additional means of credit monitoring and collection.

53. Replication and Scaling-Up. The completion report indicates that the innovations introduced by RFSP were not captured by PMOs and IFAD for replication and scaling up in future projects. For example, the Chongqing RCCU introduced a number of interesting new loan products. Replication and scaling up took place within the bank, and experience was shared with the Shaanxi counterparts. However project design did not include an explicit mechanism for further innovation, replication and up-scaling, and this has not occurred. Moreover, given the changed role of the CBRC, there was no apparent mechanism to transfer knowledge and experience gained in provincial and country level reform from this project to subsequent programme activities related to RCCs. However, the PCR also states that all RCCUs/RCBs, so also the ones not supported by the programme, underwent a similar organisational restructuring and therefore, there was no need for replication.

54. Based on above assessment balancing programme performance with regard to innovation (which is highly successful) and replication and scaling-up (moderately unsatisfactory), IOE rates this criteria as moderately satisfactory (4). This assessment is in line with the one provided by PMD.

C.7 Gender equality and women's empowerment

55. Programme design targeted poor households in the pilot counties, and provided for a *Women Window* so that women could contract individual or group loans in their own names. However, this activity did not deliver the expected results pre-MTR, mainly because of the lack of adjusted loan products and the insufficient coverage of remote poor villages. The post-MTR period focused on product development and promoted the introduction of village credit models (which would further increase access for women). Despite sporadic reports on this, there seemed to be no application of this village credit model. However, the completion report underlined that RCCs and RCB sub-branches took a series of initiatives to help increase women lending in remote areas through the introduction of specific products, namely one village-one product, women starting their business, loan for returned migrant workers, farmer broker lending, village mutual guarantee lending.

56. Otherwise the programme microcredit lending was executed mostly through the RCC operations of individual microcredit lending, with more conscious targeting of the poor and the women as differentiated from the RCC conventional microcredit portfolio. The provinces reported that 47% of the borrowing households were classified as poor households, of which 27% were women-led households. The completion report acknowledges the conscious targeting effort of the programme given that non-programme counties usually count around 5% of women borrowers. However, in comparison with the Qinling Mountain Area project, this seems rather low. According to the IOE Interim Evaluation of Qinling the proportion of women signing loan contracts increased up to 56% by the end of the project.

57. RCC/RCB customers, including women, interviewed during the PCR mission reported a more equitable share in the family's decision making and household business. Such improvement may partly result from the male labour migration to the urban area and the increasing trend of feminized rural labour, but to some extent showing some aspects of increasing ownership of women in socio-economic affairs.

58. Programme performance with regard to gender equality and women's empowerment is rated as moderately satisfactory (4), which is fully in line with the PMD assessment.

C.7 Performance of Partners

59. IFAD. IFAD took a strong stance with regard to financial and institutional sustainability as an important success factor in rural finance. The completion report recognises the role of IFAD in providing continuous support and training opportunities for PMO staff. Moreover, the showed flexibility in adjusting its assistance and financial allocation to cope with the changing environment given the nationwide reform process of the banking system contributes to the positive assessment. Although recognising that RFSP was IFAD's first sector programme and should therefore be commended, the completion report did identify a number of issues: (i) the implied programme objective of policy consultation was perceived as ambitious; (ii) the complexity of the RCC structure was underestimated; and (iii) implementation of certain activities pre-MTR was idle due to the national context.

60. From 2008 onwards, IFAD brought the project under direct supervision, expecting that the programme performance would improve due to closer implementation support and follow-up. Since then, apart from the MTR, IFAD conducted two supervision missions, two implementation support missions and a completion mission. The PCR reports on the long processing time of withdrawal applications by IFAD, but does not provide a deeper analysis of IFAD's performance of its supervision role or the changes that may have occurred since the establishment of the field office. According to the Country Programme Review (2011), the establishment of the country office did improve project management. It acknowledges that direct supervision has led to more timely and effective interventions to rectify problems arising during project implementation. At the same time the supervision process is still over dependent on the MTR as the point at which adjustments in projects are to be made. Based on the above strengths and weaknesses identified during design and implementation, the performance of IFAD is considered overall to be moderately satisfactory (4). This is slightly below the assessment provided by PMD (5).

61. Cooperating Institution. UNOPS was appointed during design as the cooperating institution responsible for the supervision of the programme until 2008. However their limited budget and – therefore – limited time for engagement with the programme meant that UNOPS missions were largely unable to effectively exercise supervision of programme content and related technical issues. When substantive issues were identified and discussed during their supervision missions there tended to be little follow-up by UNOPS to monitor the implementation of agreed up on changes. According to the PCR, UNOPS fielded the first supervision mission in November 2006, reporting on a number of difficulties in kicking off programme implementation. A second UNOPS supervision mission was

fielded in November 2007, seven months after the MTR, reporting on the status of implementation of the MTR recommendations (of which many were not realised) and formulating new actions to be taken, especially to address the disbursement lag affecting programme effectiveness. Overall, the performance of the cooperating institution is considered moderately satisfactory (4), which concurs with the PMD assessment.

62. Regarding the performance of the Government of China, the completion report notes the high commitment to the project by the Ministry of Finance, expressed in promptness and coordination between IFAD and the programme provinces. The Departments of Finance respectively in Chongqing and Shaanxi were challenged by the multitude of donors projects they are responsible for, and therefore, the time allocation for the RFSP was somehow limited. Especially in Chongqing, delays in processing WAs before submission to IFAD occurred regularly and PMOs requests were not always followed-up by the Department of Finance (for example, the request to IFAD to increase the procurement threshold).

63. The government established a PMO in each province, who were the actual coordinators for programme implementation. Both PMOs are commended by the completion report for their commitments in mobilising and coordinating the counterpart funding for the programme, which exceeded the original 30% in both provinces. The stability of key staff in the PMOs contributed to the institutional memory. However, at the same time, the absence of full-time PMO staff did sometimes slow down implementation progress and partnership dynamics and led to uneven M&E data and delayed submission of AWPBs and progress reports.

64. This validation notes that the MTR reported on a compatibility conflict between two policy objectives providing support to the rural sector through cheap and subsidized rates on the one hand and strengthening robust and self-sustainable rural finance institutions on the other. This affected in particular the promotion of delivering microfinance services through existing rural finance institutions. It is remarkable to note that neither the supervision reports nor the PCR reflects on the status of those policies and the potential impact on the development of the RCC/RCBs.

65. Overall, the performance of the Government institutions is considered moderately satisfactory (4), which confirms the PMD assessment.

C.8 Overall Assessment of Project Achievement

66. The programme's overall achievement has been rated as moderately satisfactory (4). Programme support to reforming the rural finance networks in Chongqing and Shaanxi has contributed to strengthened institutional, financial, operational and technical sustainability of those institutions. Improved access to financial services had impact on the livelihoods of rural households in the programme counties, although to a less extent than would have been expected from a programme of such a scope. In particular, rural household assets and production improved, food security insured, human and social capital strengthened and the socio-economic status of women improved. RFSP did bring innovative approaches in segmenting the lending market and adapting lending products for the poor and women. However, as mentioned, the programme main weakness can be found in the visionary but ambitious design, the weak poverty focus at the lowest level, and the absence of clear linkages with other IFAD-funded projects. Opportunities have been missed to expand the impact of IFAD's rural finance work across its own programme and to broader sector development.

D. Assessment of the PCR Quality

67. Scope. In preparing the PCR, the PMO benefited from a training on the main steps in the completion procedure. The PCR report is structured in line with the Guidelines for Project Completion (2006), but is missing some important annexes (such as the economic and financial analysis and the impact on the environment). It assessed project performance against the evaluation criteria adopted by PMD and IOE; however, the report concentrated on the final results, giving very little information

about the changes that took place during implementation and problems that had to be resolved. Also, the report did not mention the reason for the 16 months gap between project approval and loan signing. Yet, some sections of the report were comprehensive, especially those dealing with the economic efficiency. Overall the scope of the PCR is rated by this validation as moderately satisfactory (4).

68. Quality. This PCRV finds some of the information provided by the PCR of good quality, but overall, the PCR is weak. More information concerning the RFSP financed activities would have been appreciated to better assess the programme's impact. The PCR results were mainly based on the two RIMS surveys undertaken in mid-2007 and late 2009 (without baseline or control groups), which makes it difficult to analyse attribution and contribution. Moreover, the report could have been stronger in terms of methodology, especially concerning the assessment of project effectiveness. A clearer view of the financial situation of the programme in its totality would have been expected. Overall, the quality of the PCR is rated as moderately satisfactory (4). This rating differentiates with one point from the PMD assessment (5).

69. Lessons. The PCR presents some important lessons based on its experience as a sector support programme in the field of rural finance reform. Some of the lessons, such as the need for comprehensive consultation at design, are general but still pertinent. However, the PCR could have integrated important lessons related to the lost potential of synergies between the different IFAD-funded projects, or other donor-funded projects. The present validation rates lessons learned (for which highlights are presented below) as moderately satisfactory (4).

70. Candour. Candour of the completion report is rated as satisfactory (5) by the present validation as the report provides constructive self-critical assessment of the performance of the Government and its partners.

E. Final Remarks

E.1 Lessons Learned

71. Among the lessons learned in the completion report, the following can be summarised:
- a. If policy dialogue is to be promoted, special support needs to be foreseen – preferably in the form of an alone-standing policy advisory project. RFSP faced difficulties in mobilising project-based resources to tackle issues that were generally regulated during a relatively short project life. A policy advisory project might be more meaningful if it focused at the central or national level, directly interacting with policy making or regulatory agencies with stand-alone financing and intervention scope;
 - b. One-sector support programmes should develop clear linkages with other traditional multi-development projects creating synergies;
 - c. Need for comprehensive consultation at design and during implementation to adjust the programme approach timely;
 - d. In line with the Paris Declaration, better alignment of IFAD procedures with national procedures (in particular procurement) and procedures of the implementing partners;
 - e. Need for full-time PMO and sufficient staffing.

E.2 Issues for IOE follow-up (if any)

72. None.

G. Rating Comparisons

| Project ratings | | | |
|--|-------------------------------|-------------------|---|
| Criterion | PMD Rating⁸ | IOE Rating | Net Rating Disconnect (IOE PCRV-PMD) |
| Relevance | 4 | 4 | 0 |
| Effectiveness | 4 | 4 | 0 |
| Efficiency | 4 | 3 | -1 |
| Project Performance⁹ | 4 | 3.66 | -0.34 |
| Rural Poverty Impact | | | |
| HH Income and Net Assets | 5 | 5 | 0 |
| Human and Social Capital and Empowerment | 4 | 4 | 0 |
| Food Security and Agricultural Productivity | 5 | 5 | 0 |
| Natural Resources and Environment | n.a. | n.a. | 0 |
| Institutions and Policies | 4 | 4 | 0 |
| Overall rural poverty impact¹⁰ | 5 | 4 | -1 |
| Sustainability | 4 | 5 | +1 |
| Innovation, Replication and Scaling Up | 4 | 4 | 0 |
| Gender equality and women's empowerment | 4 | 4 | 0 |
| Overall Assessment¹¹ | 4 | 4 | 0 |
| Performance of partners | | | |
| (a) IFAD | 5 | 4 | -1 |
| (b) Cooperating Institution | 4 | 3 | -1 |
| (c) Government | 4 | 4 | 0 |
| AVERAGE Net disconnect | | | -0.20 |

| Ratings of the PCR document quality | PMD rating | IOE PCRV rating | Net disconnect |
|--|-------------------|------------------------|-----------------------|
| (a) Scope | 4 | 4 | 0 |
| (b) Quality (methods, data, participatory process) | 5 | 4 | -1 |
| (c) Lessons | 5 | 4 | -1 |
| (d) Candour | 5 | 5 | 0 |
| Overall rating PCR document | n.p. | 4 | |

⁸ Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

⁹ Arithmetic average of ratings for relevance, effectiveness and efficiency.

¹⁰ This is not an average of ratings of individual impact domains.

¹¹ This is not an average of ratings of individual evaluation criteria. Moreover, the rating of partners' performance is not a component of overall project assessment rating.

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