INCLUSIVE FINANCIAL SERVICES FOR THE RURAL POOR

EVALUATION SYNTHESIS | FINDINGS AND LESSONS

Independent Office of Evaluation

IFAD
Investing in rural people

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Abbreviations and acronyms

CBFOs	Community-based financial organizations
CPM	Country programme manager
CSPE	Country strategy and programme evaluation
ESR	Evaluation synthesis report
FAO	Food and Agriculture Organization of the United Nations
FSPs	Financial service providers
IEG	Independent Evaluation Group of the World Bank
IFS	Inclusive financial services
IOE	Independent Office of Evaluation of IFAD
LFUG	Leasehold forest user group
MFIs	Microfinance institutions
MSMEs	Medium small and micro enterprises
MTR	Mid-term review
NGOs	non-governmental organizations
PROFIT	Programme for Rural Outreach of Financial Innovations and Technologies
RLMSP	Rural Microfinance and Livestock Programme
SACCOs	Savings and Credit Cooperatives
SDGs	Sustainable Development Goals
SMEs	Small and medium enterprises
TUP	Targeting the Ultra-Poor

BACKGROUND

Financial inclusion is seen as a catalytic tool to unlock development opportunities and improve lives, especially of the poor[1]. Financial inclusion is crucial to achieve many of the 2030 Sustainable Development Goals (SDGs)[2]. Access to finance is recognized as contributing directly to goals on good health (SDG 3), quality education (SDG 4), gender equality (SDG 5), access to clean water (SDG 6) and energy (SDG 7), and industry and innovation (SDG 9 – "providing small enterprises with access to finance"[3]); it plays an indirect role in achieving broader goals such as no poverty (SDG 1), reduced inequality (SDG 10 – "reduce transaction costs of migrant remittances"), and peaceful solutions (SDG 16).

Financial services are key to leveraging investment opportunities, transforming ideas into productive ventures, scaling up projects, and making value chains sustainable, thereby improving the social and economic well-being of smallholders, those who are vulnerable to economic and environmental shocks and those who live in remote locations, and contributing to economic growth. In its current Strategic Framework (2016–2025) IFAD recognizes the important role of rural finance within the inclusive rural transformation agenda.

Rural finance constitutes a significant part of IFAD's investment portfolio. Since 1981, IFAD has invested US$ 3.4 billion in rural finance, representing 17.7 per cent its total project investments. In addition, IFAD has provided grants on rural financial service activities worth US$ 42.3 million, representing 9 per cent of all grant money.

In 2007, the Independent Office of Evaluation of IFAD (IOE) conducted a corporate-level evaluation of rural finance in IFAD. The evaluation highlighted the need for a strategic change, from considering credit as input-supply towards a comprehensive approach at the three levels of the financial system (macro, meso and micro), to achieve a sustainable provision of financial services for the rural poor. Subsequently, IFAD adopted a revised Rural Finance Policy (2009) and actively promoted a greater diversity of rural finance approaches and instruments in its operations.

[1] https://www.unsgsa.org/

[2] Achieving the Sustainable Development Goals, The Role of Financial Inclusion, Consultative Group to Assist the Poor and United Nations Secretary General's Special Advocate for Inclusive Finance for Development (April 2016).

[3] Remittances, Investments and the Sustainable Development Goals, IFAD (2017).

Nigeria

Rural Finance Institutions Building Programme

Meeting of the Naka Savings Group, Benue State.

OBJECTIVES AND SCOPE OF THE SYNTHESIS

Now that the Rural Finance Policy has been in place for 10 years, this synthesis provides an opportunity to take stock and learn from experience. The objectives of this evaluation synthesis were thus to: (i) review the relevance of IFAD's policies, guidance and knowledge on inclusive financial services (IFS) and the extent to which these have contributed to innovative IFS practices in the projects and portfolios evaluated by IOE; (ii) review the relevance, effectiveness, sustainability and impact of the IFS operations evaluated by IOE; and (iii) identify good practices and lessons on IFS that can inform the development of IFAD's IFS portfolio under the Agenda 2030.

The timeframe covered by this evaluation synthesis report from 2008, the year after the publication of the corporate-level evaluation of IFAD's Rural Finance Policy, until 2017. The synthesis report covered the country portfolios, loan projects and grants evaluated by IOE since 2008 that had a focus on rural finance or IFS, as defined by the relative share of funding for these topics at design. The synthesis also covered, although in broader terms only, the development of IFS-related policies, guidance and innovative approaches in IFAD since the introduction of the revised Rural Finance Policy in 2009.

Overview of terminology

Rural finance. Financial services that focus on households and businesses in rural areas, encompassing both agricultural and non-agricultural activities, and targeting poor and non-poor women and men.

Agricultural finance. Financial services that focus on on-farm activities and agricultural businesses, without necessarily targeting poor people.

Rural microfinance. Financial services that focus on relatively small-scale producers and services targeted to poor clients in rural areas.

Value chain finance. Financial products and services that flow to or through any point in a value chain in order to increase the returns on investment, growth and competitiveness of that value chain.

Source: IFAD Rural Finance Decision Tools, 2010.

KNOWLEDGE AND LEARNING IN IFAD

The synthesis found that learning partnerships with global or regional actors have helped to test and develop innovative approaches and to digest broader learning. Partnerships such as the Rural Finance and Investment Learning Centre, supported by IFAD, the Food and Agriculture Organization of the United Nations (FAO), Germany's Federal Ministry for Economic Cooperation and Development , the United Nations Capital Development Fund , the World Food Programme and the World Bank, and their resources were instrumental for introducing global lessons and thereby strengthening the conceptual and technical knowledge in IFAD. However, no comprehensive analysis was undertaken of lessons and practices within IFAD.

Knowledge generation almost exclusively depended on grants. Global grants were effectively used to foster knowledge with think-tanks or thematic lead agencies. The choice of partners was highly valid – internationally renowned agencies that are at the forefront of the thematic debate in their respective field. Regional grants promoted cross-country learning and capacity-building, based on synthesized learning from a region. They also facilitated innovative products across a number of countries with similar challenges and opportunities. Country-specific knowledge grants addressed capacity and policy gaps and supported innovations that were later scaled up through IFAD's country programmes.

Within IFAD, the Rural Finance Team (in the former Policy and Technical Advisory Division) has played a major role in facilitating the implementation of the Rural Finance Policy in the past decade. It has been managing global grants and contributing to regional grants, engaging in international fora, and generally advancing learning, and knowledge generation and dissemination. Overall, this highly qualified and well-networked team has been a decisive factor in increasing IFAD's global visibility and reputation in the field of IFS. It has been acting as a catalyser of knowledge and learning, moving the Organization forward and linking it to global and regional peers.

During the first wave of IFAD's decentralization in 2018, IFAD dismantled the core Rural Finance Team at headquarters level. While it is reasonable to place technical support capacity in regional hubs where they are closer to IFAD's operations, this move has left a vacuum in IFAD headquarters in Rome, given the central role that the Rural Finance Team had been playing in the past in ensuring the consistency of IFAD's approach to IFS, networking with global IFS players, introducing state-of-the art practices, and leveraging knowledge and support into the different regions.

At the operational level, the country programme managers (CPMs) had a pivotal role to play when it came to translating the Rural Finance Policy principles into practices on a ground. With IFS constituting such an important part of the IFAD portfolio, the CPMs were expected to understand the basic IFS principles as well as the range of innovative instruments and services promoted by IFAD. In practice, the CPMs mostly relied on external consultants for project design and implementation support.

Limited availability of in-house IFS capacity and high dependence on external consultants partly explains gaps in the application of the Rural Finance Policy in design and implementation. Another important factor is the limited capacity of IFAD to follow up on the more complex and innovative IFS approaches that are promoted by the Rural Finance Policy. IFAD's performance as a partner in IFS differs significantly between regions and is generally better where IFAD has a larger portfolio and a fully dedicated CPM to follow up.

The Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)

PROFIT in Kenya was classified as a "problem programme" at the time of the 2014 mid-term review (MTR). The design was highly ambitious and included a number of innovative instruments, such as a risk-sharing facility, a credit facility, an innovation facility, a business support service facility, and a financial graduation facility. PROFIT was managed by a programme coordination unit at the Ministry of Finance, which was expected to procure technical support providers. The MTR concluded that the design under-estimated the challenges linked to a programme coordination unit fully embedded in the systems and procedures of the Government, including the layers of decision-making required to implement planned activities, the lengthy communication processes, and the management of procurement processes (e.g. recruitment of staff and hiring of service providers). Only after massive technical inputs by IFS experts at headquarters and international consultants during and after the MTR, which led to the cancellation of the innovation facility, did the project start to deliver.

Sources: Kenya country strategy and programme evaluation (CSPE) (2018), PROFIT MTR (2014).

India

Orissa Tribal Empowerment and Livelihood Programme

Sukalyani Shakti Dala self-help group meeting, Tumulo village, Gajapati District. Some members paying their subscription fees.

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RURAL FINANCE POLICY PRINCIPLES

The revised Rural Finance Policy (2009) introduced a **financial systems development approach**, which recommended targeting all three levels of the financial system: the micro level, focusing on individuals and sustainability of financial service providers (FSPs); the meso level, focusing on building effective financial markets, second-tier institutions and apexes; and the macro level, addressing governments, policy and sector strategy formulation, and regulation and supervision of micro-level FSPs and meso-level institutions. The policy highlights the importance of knowledge-sharing, learning systematically and collectively from projects, good practices and partners.

The **six principles of the 2009 Rural Finance Policy** are internationally recognized as good practice, and generally valid for financial sector interventions. Although these principles were widely conceived even before the introduction of the revised policy, some of them were found to be ambitious and challenging in the context of IFAD operations, in particular with regard to the variety of financial services, the use of demand-driven and innovative approaches, and ways of balancing sustainability and poverty outreach.

The six principles are:

- offering a variety of financial services; using a wide range of FSPs;
- demand-driven and innovative approaches; market-based approaches, avoiding distortions;
- long-term strategies, sustainability and poverty outreach;
- and policy dialogue and enabling environment for pro-poor rural finance.

Demand orientation is one of the policy principles, but demand studies were rarely conducted at design stage. From the outset, it was usually the Government's interest that had steered the demand for a certain approach. Most projects did not assess beneficiary capacities

Moldova case study

IFAD has played a pivotal role in developing the rural finance sector in Moldova. Lending is channelled through the Credit Line Directorate of the Ministry of Finance, which on- lends to local partners. Attempts to introduce an equity fund were abandoned and funds reallocated to the credit lines. With this approach, IFAD provided subsidized financing, which in the long run creates over-dependencies and market distortions. IFAD's intervention, which is limited by only providing liquidity, cannot guarantee sustainability. Technical support provided has been limited to awareness-raising. There is a potential for IFAD to become more proactive in policy engagement and facilitate a long-term strategy for financial sector development.

Source: ESR case study Moldova, based on Moldova project performance evaluation (2019).

and their demand for financial services in a realistic manner during design. As a result, the effectiveness of the project was often limited. Where projects tried to introduce innovative products and services without a demand assessment, they had to adjust their approach during implementation. Projects with multi-sectoral approaches found it particularly difficult to apply a demand-oriented approach because they were targeting certain groups and regions primarily through non-financial interventions.

Innovative approaches were introduced in the context of IFAD-supported programmes; some have been highly successful (e.g. Ghana, India); others did not materialize as planned (e.g. Moldova, Mozambique). Many of these innovations would have benefited from pilot-testing or a more detailed foresight analysis prior to being scaled up, which was not done sufficiently. Furthermore, there has never been a critical review of lessons learned from innovations (successful and failed) introduced by IFAD.

Market-based approaches are key for sustainable financial service provision, but cost-covering interest rates can be difficult to implement in government-led projects. The concept of cost-covering interest rates for agricultural investments was often difficult to convey to policymakers and to realize in practice. Further challenges were distortions in the financial market through subsidized loans or grant funding from the Government.

Sustainability of financial service provision has been an explicit aim of the majority of projects but has not always been achieved. In many cases the sustainability of FSPs has not been assured because of lack of continued support through apex organizations or limited project investments, scope or duration. Enabling FSPs to offer a broader range of financial products would have been an important ingredient for sustainability.

Targeting a larger number of very poor people over a longer period of time may not permit smaller FSPs to become financially self-sustaining. For regions where low population density and weak infrastructure make sustainable financial service provision even more challenging, these factors need to be clearly addressed from the outset. A simple approach to IFS, such as community-based financial services, would be appropriate in this situation because it is more likely to be sustained after the project exit.

The inherent tension between the principles of sustainability and inclusivity needs to be addressed in a strategic manner, for example by specifying the conditions under which subsidized loans should be offered, to ensure outreach to very poor clients.

Sustainable financial services for the poorest?

In its recent evaluation of IFS at the World Bank, the Independent Evaluation Group (IEG) discussed a broader range of options for how to "make outreach to low-income and rural populations commercially viable". IEG calls for more "effective credit allocation" instead of a "democratization of credit". This is also in response to concerns over high levels of indebtedness in some thriving microfinance markets, such as Tamil Nadu. Digital finance is seen as a promising approach to reducing the cost of delivery and overcoming delivery barriers or distances and offices. This may also involve going back to considering interest rate subsidies "when they are transparent, targeted and capped, explicitly budged, fiscally sustainable, equitably distributed and economically justified". Lastly, the IEG recognizes that facilitating access to savings products on a broad scale would help to ensure that the poor will benefit from financial sector interventions.

Source: World Bank IEG, 2015.

Malawi

Sustainable Agricultural Production Programme

Members of the Muimasenta savings group deposit their weekly fee, Nzega village.

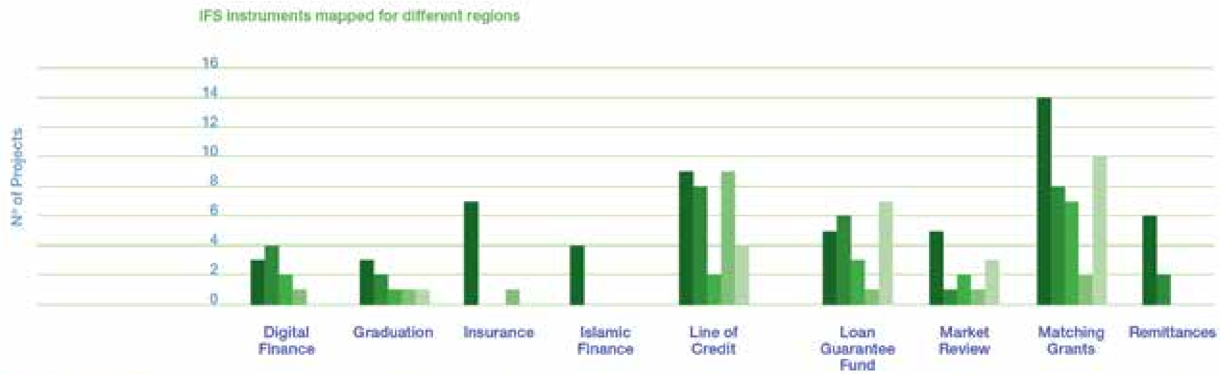
FINANCIAL INSTRUMENTS

The **mix of financial instruments** in the portfolio did not change fundamentally since 2009 (see figure overleaf). Loan guarantee funds, lines of credit and matching grants are still overly represented in the mix. The choice of these instruments was not necessarily based on a sound analysis of market demand, but more on demand from the Government, assumptions on what the beneficiaries may lack, pressure to reach out to a large number of beneficiaries within a short time, and limited knowledge of feasible alternatives. The review of financial instruments and services used in the portfolio since 2009 shows that the Asia region has been at the forefront of introducing a more diverse mix, including insurance, remittances and Islamic Finance.

Lines of credit are recommended under specific circumstances, for example when liquidity is clearly lacking and professional fund managers can be hired or are in place. Lines of credit worked well when clear institutional responsibilities and adequate institutional capacities were in place, for example in China and Moldova. In less successful projects, it was managing multiple lines of credit that was time-consuming and led to implementation delays, for example in Argentina and Belize. Lines of credit may still be required where local credit markets are constrained in terms of funding, but nowadays this is no longer the case in most countries.

Loan guarantee funds can motivate FSPs to lend to target groups receiving business development support. Loan guarantee funds are set up to eliminate information asymmetries and encourage banks to lend to medium, small and micro enterprises (MSMEs). Loan guarantee funds are meant to overcome key bottlenecks such as the lack of collateral and credit history. For long-term success, guarantee funds require regulation and supervision, governance and management, and risk management. Within a difficult business environment, a loan guarantee fund will have minimal impact without reforms. Within the sample of projects reviewed by this ESR, loan guarantee funds were not a success. Guarantee funds were planned in countries where IFAD has neither the technical capacity nor the partnerships on the ground to deliver strong

IFS instruments present in IFS operations approved since 2009, according to regional divisions



	Digital Finance	Graduation	Insurance	Islamic Finance	Line of Credit	Loan Guarantee Fund	Market Review	Matching Grants	Remittances
Asia & Pacific	3	3	7	4	9	5	5	14	6
East & Southern Africa	4	2			8	6	1	8	2
Latin America	2	1			2	3	2	7	
Near East and North Africa	1	1	1		9	1	1	2	
Western & Central Africa		1			4	7	3	10	

Source: Financial Assets, Markets and Enterprises dashboard (2018).

technical support (e.g. Argentina, Dominican Republic, Lesotho Moldova). Only one project, in India, has effectively implemented a guarantee fund because it was attached to an existing apex organization. In Kenya, massive technical assistance was required to initiate such a fund.

Matching grants are one-off, non-reimbursable transfers to project beneficiaries. Although initially confined to investments with clear public-goods characteristics, matching grants are nowadays used to finance a broad array of assets and productivity-enhancing technologies for groups, companies and individuals, directly benefiting the private sector with clear private-goods characteristics. Despite their appeal as a relatively simple instrument to address constraints in access to finance in the short run, they can distort and crowd out private and public investments. In none of the reported cases have matching grants been aligned with the guidance to facilitate links with the formal financial sector for sustainable access to finance beyond project support.

Value-chain financing can offer financial solutions for small and very small producers that are part of a value chain. However, the diversity

Lessons on credit lines from the African Development Bank

Lines of credit positively contribute to the portfolio performance of international financial institutions by increasing their margins and reducing risk, which also creates strong internal incentives in favour of lines of credit. They can be more cost-effective than other instruments because they allow the packaging of a large amount of financial aid into a limited number of operations, which are then channelled through existing institutions that do not require separate administrative systems to be set up. However, there is a trade-off between the efficiency of lines of credit, and the rigour of eligibility criteria and oversight requirements. Disbursement of lines of credit is more rapid when eligibility criteria are broader. The selection of client financial institutions is driven by a need for fiduciary integrity, due diligence, and credit-risk considerations. This has typically led to the prioritizing of top banks and more developed financial systems, thereby reducing the potential for additionality of lines of credit. The tightening-up of eligibility criteria and controls can significantly slow down the delivery of lines of credit.

Source: AfDB/IDEV (2018). Do lines of credit attain their development objectives? An evaluation synthesis 2010–2017.

of segments in value-chain finance requires very different approaches to serving the poorest as well as the SMEs, thus adding to the complexity of the design. Some projects (e.g. Bangladesh, Philippines) were working on value chains on the one hand, and on IFS or microfinance on the other. In other cases, the practice was to have a microfinance or rural finance component or activity stream on the one hand, and on the other side a value chain development component (e.g. Bangladesh). These cases presented a rather light-touch approach to linking financial and non-financial support.

Lessons from a World Bank study on matching grants

A matching grant should target specific investments and types of beneficiaries, particularly those with limited access to finance; by the end of the project, however, banks and financial institutions should be familiar with these investments and types of beneficiaries and should continue providing financial services to them. Beneficiaries' contribution must be set high enough to ensure ownership and to crowd in commercial credit. Matching grants should aim to finance longer-term investments, particularly with sufficient environmental and social externalities, and capacity-building/advisory services for farmers and agricultural small and medium enterprises (SMEs) that require longer-term funds.

Source: World Bank (2016). How to make grants a better match for private sector development.

FINANCIAL PRODUCTS AND SERVICES

The **range of financial products and services** offered by IFAD-supported projects was limited. Despite the clear indication of the rural finance policy to diversify products and services, projects were generally leaning towards traditional financial services, mainly savings and borrowing at the micro level. New types of services that were promoted by IFAD through the revised Rural Finance Policy, such as leasing, insurance, warehouse receipts and value-chain financing, were hardly used; or, when included in design, they were often found less feasible during implementation. The main reason was that the transition to new types of financial services requires significant investments in technical assistance, market studies and capacity, for which governments had been reluctant to use loan funds. Furthermore, service providers for special products such as leasing and insurance within the context of IFAD's operations.

Availability of **qualified FSPs**, their capacity and presence in rural areas were the main factors determining IFAD's approach. Fifty-two per cent of the projects reviewed have used community-based financial institutions. Less common were credit unions or savings and credit cooperative organizations (SACCOs), microfinance institutions (MFIs) or non-governmental organizations (NGOs), commercial banks and state banks. Only one project used a leasing company. Use of insurance companies was not reported.

State banks were often default partners for IFAD although they did not perform well because of their institutional inefficiencies (e.g. Egypt, Ghana, India, Viet Nam). Partnerships with state banks encountered problems because of conflicting procedures and interests. At times, IFAD support was used to subsidize poorly performing state banks, for example in and in.

Commercial banks often had no presence in remote and poor areas and were reluctant to lend to smallholder farmers due to the risks related to lack of infrastructure, a dispersed clientele, the vulnerability of the agricultural activities, and the length of production cycles. Participation of

Nigeria

Rural Finance Institutions Building Programme

Manager of the Bank of Agriculture manager, Doma branch, Nasarawa Statehas. The bank has successfully provided a total of 11.6 million in loans to 10 savings and credit groups that have been trained through the programme.

commercial banks, assumed at project design, often did not happen as planned (e.g. Belize, Ethiopia, Georgia, Ghana). In Albania and Lesotho, turning previously state-owned banks into commercial banks (Mountain Areas Finance Fund, Post Bank) was a slow process and was not completed within the projects' lifetime.

NGO-type microfinance institutions, credit groups or credit unions that are not part of the formal financial sector were often called in to fill in gaps left by formal FSPs such as banks or regulated MFIs. While overall their performance was mixed, they were strong in reaching out to the poor and to women in many cases. However, their growth and institutional sustainability were often limited by the lack of adequate support structures (apexes), for example in Ethiopia, India, Mozambique and Uruguay.

Apex institutions usually provide funding to FSPs and may additionally provide technical assistance to strengthen their capacity and in some cases also the capacity of their client base. Partnering with an existing apex institution was an important factor of success – for example in Ghana, where working through the apex bodies reduced recruiting time and ensured access to training for large groups. Projects that tried to set up meso-level funds without links to existing institutions were not successful, and the funds did not become effective during the project life (e.g. in Belize and Cameroon).

Village finance associations in Nepal

In Nepal, the Leasehold Forestry and Livestock Programme created 36 village finance associations, which have mobilized capital from member contributions of about US$310,000. However, results remain unsatisfactory in terms of the quality of financial services and institutional performance. The management committees, account committees and loan committees have modest capacity. The accounting and financial records are rudimentary, uneven, difficult to reconcile and do not allow easy assessment of financial performance of the village finance association. Members lack understanding of the basic principles of savings and credit operations. The training for members provided was only nominal (two- to three-day seminars) and clearly inadequate. Many members were already part of other project-created savings and credit schemes, and their motivation to join the leasehold forest user group (LFUG) savings and credit scheme seems more related to the benefits they expect from other components of the project (e.g. goat distribution). The efforts to federate LFUGs into village finance associations or cooperatives did not produce satisfactory outcomes, mainly because of shortcomings in the capacity of the selected service provider, whose contract was terminated following the 2010 supervision mission. A recent LFUG categorization study carried out by FAO found that only 16.7 per cent of LFUGs are financially active and that the average member deposits were only NR 12.6 per month (~US$0.15).

Source: Nepal country programme evaluation (2012).

OUTCOMES AND IMPACT

Poverty outreach was limited. 35 per cent of the evaluations reported benefits from IFS, in particular loans offered in connection with savings. Benefits for the very poor were shown for only 9 per cent of the projects, while 30 per cent projects registered negative or mixed results. Often the operating costs for reaching out to the poor were high and interest rates were not attractive to the poor.

Graduation is an approach to address the issue of financial exclusion in a targeted manner. In the context of IFAD, graduation pilots are implemented alongside more systemic approaches to strengthen financial service provision. Graduation supports income-generating activities and building assets that will enable people to move out of extreme poverty, thereby creating the prerequisites to subsequently access financial service. Graduation approaches use the targeting and transfer elements of safety net programmes, but also introduce entrepreneurial activities through training, asset grants and credit. A successful case of graduation has been reported for the Rural Microfinance and Livestock Support Programme (RLMSP) in Afghanistan.

Outreach to women was overall strong. Projects with greater outreach to women relied more on community-based financial organizations (CBFOs) for service delivery than those with negative or mixed results. On the other hand, those with no or even negative results for women involved commercial banks and credit unions or SACCOs to a larger extent. Credit unions often did not target women in particular.

Women clearly benefited from the organizational activities that often accompanied the provision of rural financial services. Some MFIs put in place a social mobilizer in addition to a finance specialist, and this was seen to promote the process of empowerment. This has helped women to build their social capital, for example by strengthening their mutual bonds as well as links with local banks. Other good practices included promoting savings and credit associations as a first point of entry for financial services for women, and targeting FSPs with a strong female client base.[4]

[4] ESR on gender equality and women's empowerment (2017).

Rural Microfinance and Livestock Support Programme (Afghanistan)

The project included a US$7.5 million Innovation Fund which was used to test the Targeting the Ultra-Poor (TUP) model, initially developed by the Bangladesh Rural Advancement Committee in Bangladesh, in two provinces. The model was used to link the ultra-poor with self-help groups and cooperatives to better access finance. The approach was to conduct skills training in financial services and in livestock production, practices and technologies, in addition to providing productive assets to the targeted 1,200 ultra-poor in the pilot-test model. In the end, the project managed to reach 1,760 ultra-poor female-headed households in Bamyan and Badakhstan.

At the end of the project, the impact assessment showed that, while the main Microfinance component had low participation of women, 100 per cent of the TUP beneficiaries were women, mainly widows or those whose husbands were disabled. The assessment also showed that after the TUP had been implemented, 100 per cent of the beneficiaries were able to access microfinance, compared to only 6 per cent before. By the end of the project, the beneficiaries felt that their income was sufficient to meet their household needs and that they were now food-secure. Through the TUP intervention, beneficiaries were also provided with health services, treatment and a health subsidy so that those living in remote areas could meet their health needs in an emergency.

Participants in the final stakeholder workshops agreed that the combination of in-kind and financial support to the ultra-poor households was highly effective, as it promotes livelihood means, income and food security through livestock production. Successful implementation of the piloting attracted further international funding from the World Bank and Italian Development Cooperation to the tune of US$15 million and US$3.4 million, respectively, to scale up the TUP model in another seven provinces.

Sources: RLMSP project completion report (2017); RLMSP project completion report validation (2018); RMLSP impact evaluation report, commissioned by the Ministry of Agriculture, Irrigation and Livestock (2017).

Village counsellors in Georgia

A case of successful targeting of poor people in remote mountain regions was found in Georgia (2018 CSPE), where IFAD provided training and capacity building to MFIs. Through the successful lending activities, MFIs increased their portfolios and were able to establish additional branches. One of them, Credo, has established a system of village counsellors. Acting as an MFI agent, counsellors identify potential clients, disseminate information in the community, and carry out the initial paperwork for the loan application without the farmer having to go to a branch. Dealing mostly with a rural population with no banking experience, counsellors provide training in repayment planning, as well as facilitate special trainings in those aspects of farming where financing is provided. Village counsellors are considered one of the main keys to success in reaching out to rural clients. Credo's village counsellor system results in detailed technical agricultural knowledge and contextual understanding that will help in the long run to identify the most suitable financial services (e.g. loan products with longer tenure), develop guarantee systems that are as effective as possible, and identify any potential for systemic failure.

Source: Georgia CSPE Working Paper (2018).

Impacts on rural poverty are expected to flow from the economic and social benefits arising from the provision of financial services. As stated before, 35 per cent of the evaluations reported that benefits from rural finance have accrued to smallholder households. Savings in combination with loans were important. Savings help households manage cash flow spikes, smooth consumption and build working capital. Access to formal savings options can boost household welfare. One project (in India) offered grants only, successfully reaching the poor. In addition, capacity-building and training (including financial literacy training) were instrumental for achieving those benefits.

A major limitation for attributing impact to IFS is the lack of credible data and measurements. This is a broader methodological problem, not limited to IFAD, which up until now has prevented general conclusions on IFS as a means to overcome poverty. A new meta study on financial inclusion highlights the limited contribution that impact evaluations have been able to make to this debate. However, the same study concludes that it is necessary to uncover what kinds of interventions work best for whom and where, and how best to deliver them.

Outreach to MSMEs was successful in four projects. Linking finance and business development services is very challenging as the timelines of both work streams follow a different logic and are often not easily compatible. It takes time to establish a fund and to establish partnerships with suitable FSPs. Many projects reported that they had the technical side of their productive support in place but that the finance activities had been delayed. At the same time, evaluations noted an ambiguity in relation to MSME targeting, where it was not entirely clear whether the focus was on the lower end of microenterprises as the main target group and direct beneficiaries, or whether it was on enabling the larger-scale microenterprises to generate secondary benefits, such as job opportunities for poor rural people. Often the assumed indirect benefits did not occur as expected.

Institutional, sector and policy impacts depend on the availability of funding and the ability of the project to work across all three institutional levels (macro, meso and micro). Stand-alone IFS projects (with more than 80 per cent of IFS funding) were by their nature better resourced to achieve better impacts at institutional, sector and policy levels. Seventy-four per cent of projects reported institutional changes, 39 per cent had an impact at sector level, but only 22 per cent were able to influence policies. An important lesson was that wherever IFAD can work with strong partners, projects are more likely to create institutional, sectoral and policy impacts. Successful partnerships in rural finance include, for example, those with the Irish Union League (Belize and Ethiopia), the World Council of Credit Unions (Kenya), international

Limited evidence on the impact of financial inclusion

A new meta study on financial inclusion cautions against possible "hype" around the concept. On average, financial services may not even have a meaningful net positive effect on poor or low-income users, although some services have some positive effects for some people. Accessing savings opportunities, according to the study, appears to have small but much more consistently positive effects for poor people, and bears fewer downside risks for clients than credit does. The study noted as a glaring omission that impact studies generally did not assess debt levels or indebtedness patterns in depth as an outcome of financial inclusion. The study calls for a clear-sighted discussion on the many valid alternatives to financial inclusion programming and on how best to gain the necessary evidence to inform that discussion.

Source: Duvendack, Maren and Mader (2019). Impact of financial inclusion in low- and middle-income countries: a systematic review of reviews. Campbell Collaboration, 3IE.

Providing business support to microenterprises – lessons learned from the Philippines

Based on the appreciation that running business operations requires a certain set of aptitudes that not everyone has, it is necessary to actively motivate start-up microenterprise candidates and identify those with interest and potential before providing a series of training on various skills, while establishing an acceptable attrition rate.

Business development services should be designed according to the needs of different types/maturity levels of micro and small enterprises. The support services should be targeted and consistent. Ways to charge at least part of business development service costs (set at a realistic level depending on the level of enterprise development) should be considered to confirm interest and commitment and to enhance sustainability.

A systematic approach to post-training impact assessment should measure the actual adoption rates. Beyond the obvious aspect of monitoring, this may produce deeper insights into what elements of the training were more or less effective, economical and feasible for microenterprises of different levels or types, and subsequent adjustments in approaches and curricula.

Attention to the environment and natural resource management should be systematically incorporated in non-financial services to microenterprises. This could be in terms of monitoring and managing any potential negative impact on the environment, as well as encouraging microenterprises to use resources more efficiently.

Microenterprises, especially start-ups or new ones, require more than one-off training and follow-up support.

The issue of recovering the costs of business development services requires more attention at design.

Source: Project performance evaluation Philippines (2017).

Lesotho case study (rural financial intermediation)

In its Poverty Reduction Strategy, the Government of Lesotho identified improved access to financial services as one of the priorities for poverty alleviation. The Central Bank of Lesotho needed to develop the policy, legal and regulatory framework for microfinance and rural financial institutions in order to supervise and regulate non-banking institutions which are carrying out banking functions. The legislation gap was highlighted in the field of cooperatives, where reporting was not compulsory, and low performance and defaulters were common issues among these financial institutions.

IFAD's Lesotho Rural Financial Intermediation Programme had relevant objectives and main design thrusts and covered the key areas in supporting rural finance and microfinance in Lesotho. However, the programme was overambitious as it did not sufficiently consider the complexities of establishing an appropriate policy, regulatory and supervisory framework in the programme context. The programme's under-performance was attributed to: low capacity of governmental implementing agencies and the absence of the financial sector foundations in Lesotho; lack of active member-based financial institutions for development, in particular in rural areas; and lack of functioning national inclusive finance associations.

However, against major delays and obstacles, the programme succeeded in building two solid institutional pillars of inclusive financial intermediation with rural outreach: private sector MBFIs under the guidance of NGOs; and a government-owned postal bank, Lesotho Post Bank. The Lesotho Post Bank, at inception a loss-making postal savings bank, transformed into a self-reliant and sustainable financial intermediary with expanding rural savings and credit outreach. In 2014, only 10 years after its operational take-off in 2005 and seven years after the start of the Rural Financial Intermediation Programme, Lesotho Post Bank attained profitability. In 2014 and during the two years after completion, 2015-2016, Lesotho Post Bank substantially increased its savings and credit outreach to rural and urban areas.

Source: ESR case study based on Project Performance Evaluation Lesotho (2017).

Stand-alone rural finance projects: advantages and disadvantages

ADVANTAGES	DISADVANTAGES
Stand-alone projects	**But the stand-alone approach can also**
• are well suited to implement a systemic approach; they can better support macro- and meso-level interventions; they can concentrate on overall sector issues such as a national strategy, regulatory issues, wholesale or apex institutions; and through this they are better able to create lasting structures in a financial system;	• make it more difficult to achieve measurable results in terms of changes at household or enterprise level;
• can collaborate with other donors engaged in the financial sector and cofinance such activities, which will give both interventions more weight and potential for creating lasting impact (e.g. in Ethiopia, India);	• create challenges in terms of coordination between ministries (e.g. between the Ministry of Finance and the Ministry of Agriculture);
• are more flexible in addressing sector-wide bottlenecks that hinder financial service provision more generally, and not only for a targeted group in a certain project area;	• have difficulties managing conflicting agendas, for example regarding interest rates for wholesale or retail loans, or new institutions or schemes that would need to be established;
• can be used for advancing knowledge creation in the country and for IFAD more generally, collecting lessons from various projects or even other countries, and documenting lessons;	• often do not interact with other projects, hence no realizing the expected synergies.
• can be expected to push the overall financial inclusion agenda further in a market by contributing to the national financial inclusion strategy or other financial sector agendas.	

Source: IFS Evaluation Synthesis.

NGOs (Lesotho), the World Bank (Ethiopia, Georgia and Ghana) and the United Kingdom's Department for International Development (India).

Stand-alone vs. mixed IFS projects. Stand-alone IFS projects active on all three levels of the financial system have led to better institutional, sector and policy impacts. Lasting structures and offerings in the financial sector have been created with IFAD support, for example in the MFI sector in Ethiopia, or through the creation of the Apex Bank and rural bank regulation in Ghana. Both the absolute and relative size of rural finance funding were found to be the most significant determinants for good projects and solid results and impacts. Where rural finance is a component or even sub-component only and is designed and monitored jointly with other non-financial activities, there is less attention to IFS issues. Moreover, often there is no rural finance expertise in the design or supervision missions, and monitoring and evaluation of financial and non-financial components is sometimes not separated.

Stand-alone rural finance project have a series of advantages, mainly related to: the focused strategic approach to finance; the counterparts that are concentrated on the financial sector; the visibility vis-a-vis government and private partners; the potential for collaboration with other development programme partners; and the programme management unit, with fully dedicated financial experts and their significant role and contribution at sector level.

In countries where several IFAD projects are engaged in the financial sector (e.g. India, Kenya, Mozambique), a systemic approach supported through a stand-alone rural finance project can effectively address the structural issues affecting all projects and create sector benefits such as digital finance regulations, a nationwide credit bureau or a credit guarantee organization. This would also mean that the other projects use, or at least closely coordinate with, the dedicated IFS project, and not implement a parallel and potentially uncoordinated or even conflicting structure.

Dominican Republic

South Western Region Small Farmers Project

A representative of the Agricultural Bank meets with members of a women's group from the village of Neiba.

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LESSONS LEARNED

Operational lessons, challenges and limitations

Lessons on what works	Challenges and limitations
A holistic financial sector development approach at three levels can work well for stand-alone IFS projects.	It is much more difficult to implement for components that are designed for a targeted region, with a specific group of beneficiaries and selected value chains. For most IFAD projects with a rural finance component, the engagement at the three levels of the financial system is very difficult or even not implementable.
Financial services other than credit are demanded by the target group, and important for the growth of formal FSPs.	The transition to new types of financial services is often hindered by governments' unwillingness to invest significant shares of project funds (based on loans) in technical assistance, market studies or capacity-building.
A market-based approach – including charging cost-covering interest rates for agricultural investments – is a key element for sustainable financial service provision.	It is much more difficult to convey to policymakers from the agriculture sector. Loans for agricultural investments are difficult to realize in practice, e.g. to find an FSP interested and able to offer such products.

Lessons on what works	Challenges and limitations
Simple approaches work better. IFAD's strength in supporting IFS on the ground lies in working at the micro level with smaller FSPs such as CBFOs and MFIs. These types of FSPs are generally more open to serving the poorer among IFAD's target group, and they are often the only FSP found in remote and rural areas.	Often, the type of FSPs willing and able to serve the target group in the region are not allowed to provide such services, nor are they capable of doing so. Significant investments in organizational development would be required before such services could be feasible from the supply side. Ensuring that a range of innovative financial services and a diversity of financial products are available is not feasible with the simple and often unregulated type of FSP.
Meso-level organizations Apexes including meso-level funds are an interesting entry point for IFAD support where the commercial banking sector is underdeveloped or underrepresented in rural areas. Well-established apex organizations can provide effective services and funding to FSPs.	Meso-level funds without links to existing institutions will take a long time to perform. Project management offices usually do not have the expertise to manage funds. Where micro-level institution have taken over meso-level functions there needs to be a clear exit strategy, to ensure that the fund remains available in the sector after project closure.
Pro-poor targeting and inclusion Graduation helps to move people out of extreme poverty by developing income-generating activities and building assets.	Non-financial interventions of the project are usually targeted to certain groups and regions, which makes a demand-led approach for rural finance difficult. The project concept and government's interest ultimately drive "demand".
	Focusing on very small loan sizes, or a certain industry or sector (e.g. tea farmers, cocoa production) or target group (e.g. women, youth, smallholders) that is new to finance or lives in remote areas, or cannot pay for cost-covering, can create several challenges for an FSP that needs to focus on covering its costs.

Lessons on what works	Challenges and limitations
Value chain finance can also offer financial solutions for the poorer. Linking financial institutions to the poor in the value chain, offering financial services to support the product flow and building on the established relationships in the chain are also beneficial for the productive poor in a value chain.	The diversity of segments in value-chain finance requires very different approaches to serve the poorest but also the SMEs, which makes design more complex.
Innovations On the demand side, digital finance allows financial services to reach more remote populations at lower cost, and requires strengthening literacy levels. On the supply side, new types of digital finance providers are emerging that can be used to leverage financial services to more remote regions.	Trying to introduce innovations country-wide without involving other donors bears the risk of IFAD's limited resources being scattered geographically. The increasing digitalization in the financial sector is challenging both supply and demand, as well as the regulatory environment. Despite the availability of digitally provided financial services, low usage is a concern.
Sustainability The shift towards market driven and sustainability-focused approaches can be observed in many projects, documents and expert fora and is generally accepted as a principle and state-of-the art within IFAD and among its partners.	The long-term sustainability of an FSP in a rural area may not be secured if project interventions are limited and not continued by permanently available apex structures and services such as training, funding and controls.
Strategies that support the sustainability of FSPs include establishing apex organizations that promote mergers of smaller FSPs operating in the same geographical zones, and supporting MFIs to keep their operational and transaction costs under control so they are able to carry out self-sustaining operations. Such strategies help to ensure that financial institutions have the internal capacity to design and roll out new products while building their capacities.	Establishing apexes is costly and usually cannot be shouldered by an IFAD project alone, collaborating with other development agencies would be necessary. Investments in institution-building of apexes may not be a funding priority of governments.

Lessons on what works	Challenges and limitations
Sector and policy impacts Effective engagement of IFAD in policy dialogue requires appropriate capacity to be in place.	To be effective, local expert presence is needed and confidence needs to be established with policymakers. Project/advisers must be seen as being able to understand the constraints and contribute to solutions without being dogmatic, and manage sensitive policy areas such as goals that can be conflicting (e.g. charging cost-covering interest rate for agricultural lending).

Source: IFS ESR.

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Cover photo:
Nigeria. **Rural Finance Institutions Building Programme**

Woman paying her savings into an account administered by a non-government organization. NGO staff visit remote villages to collect savings, Benue State.

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