Lessons from the Evaluation Synthesis

on inclusive financial services for the rural poor

Independent office of evaluation

IFAD Investing in rural people

What works and what needs to be improved

What Works / Challenges and limitations

1

Matching grants, can leverage entrepreneurs' or groups' own capital resources, and are, when coupled with bank loans, a valid third element in financing.

Few project designs take the matching grants as one-off solution as an inherent approach. They usually do not design or implement it with sufficient diligence, but rather they try to achieve impact at once, without attention to sustainability.

2

Linking finance and business development services is a key strength of components, when integration is carefully managed.

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.

3

Community-based financial organizations, i.e. village banks, cooperative, credit unions, mutuals and microfinance-non-governmental institutions are more poverty oriented by nature. They are instrumental for achieving gender results.

For the semi-formal or formal the community-based financial organizations , the longer-term strategy may comprise establishing relationships with whole-sale lenders or commercial banks acting as such, to broaden their range of services and access external funding.

What Works / Challenges and limitations

4

Commercial banks can act as partners for linkages and for whole-sale operations.

Commercial banks have insufficient outreach to women and the very poor.

They have no presence in remote and poor areas.

They see the risks of lending to smallholder farmers as too high.

5

State banks have good outreach to women.

Institutional inefficiencies have often prevented state banks to perform as partners. In some cases requirements and procedures were onerous and made it difficult for IFAD's target groups to benefit.

6

Apexes including meso-level funds are an interesting entry point for IFAD's support where the commercial banking sector is underdeveloped or underrepresented in rural areas.

Meso-level funds without links to existing institutions take a long time to perform.

Project management office managed funds assuming meso function presented serious challenges.

The exit strategy must be clear regarding the final use of the funds when a micro-level institution is channeling them so as to be circulated in the sector beyond the project duration.

What Works / Challenges and limitations

7

Loan guarantee funds can motivate financial service providers to lend to the IFAD target group that receives business development support related to productive investments and other non-financial support.

Setting-up an loan guarantee funds requires a high level of technical knowhow. Sustainability is a key challenge.

8

Credit lines can be effective in the few markets where liquidity is a constraint.

Credit lines require clear institutional responsibilities and adequate capacities in place to be effective.

They can be effective for outreach to special target groups (e.g. poor smallholders, women).

They should not be used to allocate cheap funding in a market with significant liquidity.

9

Graduation helps to move people out of extreme poverty by developing income-generating activities and building assets.

Graduation focuses on very small loan sizes, or a certain industry or sector (tea farmers, cocoa production) or target group (women, youth, smallholders) that is new to finance or lives in remote areas, or cannot cover costs.

What Works / Challenges and limitations

10

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 is 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 small and medium-sized enterprises, which makes design more complex.

11

Digital finance allows reaching out to remoter populations with financial services at lower costs, and requires to strengthen literacy levels. New types of digital finance providers can be used to leverage financial services in remoter 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.

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