Inclusive rural finance – learning from evaluation

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Asian Evaluation Week, Kunming, September 2019
Special unit of IFAD that reports to the Executive Board of IFAD

IOE conducts evaluations of IFAD-financed policies, strategies and operations to promote accountability and learning

Two main principles: accountability and learning
Why evaluation synthesis?

- **Knowledge product** - to enhance the general understanding of a particular topic
- To promote learning, collective reflection and improve development effectiveness
- To highlight **strategic implications** of findings, raise strategic issues for further consideration by management and governing bodies
- To facilitate wider use of evaluation findings
- To contribute to **decision-making** processes
- Effective when there is limited resources or time

Synthesis as knowledge product

What has worked in the past?

And under what conditions?

What may work in the future?
Objectives and scope

• The synthesis reviewed
  - Relevance of IFAD's policies, guidance and knowledge on inclusive rural finance;
  - The relevance, effectiveness, sustainability and impact of inclusive rural finance models.

• Scope:
  - Evaluations conducted since 2008
  - Policies and guidance adopted since 2008.

Corporate-level Evaluation in 2007
Revised Rural Finance Policy in 2009
Methodology

• Evaluation synthesis: Desk review drawing from independent evaluation findings
• Systematic review of IOE evaluations
  - Sample of 24 country programme evaluations
  - Sample of 25 project evaluations
• IFAD policy, guidance and knowledge documents
• Project approvals and databases
• Feedback from practitioners (online survey)
• Evaluations and studies conducted by other international finance institutions
Rural finance in IFAD’s portfolio

- In total: US$ 3.4 billion - 17.7% of IFAD's project investments
- Per year: Approx. 120 million newly approved since 1996
- 48.1% of all projects have RF; number of full RF projects decreasing
Rural Finance Policy (2009)

• **Holistic approach** at three levels of the financial system (micro, meso, macro).

• **Six guiding principles:**
  1. Variety of financial services
  2. Wide range of FSPs
  3. Demand-driven and innovative approaches
  4. Market-based approaches, avoiding distortions
  5. Long-term strategies, sustainability and poverty outreach
  6. Policy dialogues and enabling environment for pro-poor rural finance
Capacities as bottleneck

IFAD policy and institutional level

- Corporate policies & strategies
- Global partnerships
- Relevant RF policy

IFAD institutional capacity building
- Knowledge products
- Technical support

Choice of strategies
- Project design

Partner countries

- Country policies & regulations
- Relevant project strategy: Choice of partners and instruments

Financial support; institutional capacity building
- State banks, commercial banks
- Apex organisations
- MFIs, NGOs, Credit Unions
- CBFOs

Effective delivery of financial products and services
- Non-financial services
- Effective outreach; improved access to and use of services
- Effective delivery of financial products and services

Inclusive RF policies enable...

... Effective COSOPs & project strategies that...

... provide the right blend of financial and technical inputs – and linkages with non-financial inputs that....

...will generate (sustainable institutions and structures that...

... provide a broad range of inclusive services to poor rural people for both farm and non-farm activities that ......

... deliver human, social and economic benefits that...

... contribute to improved sustainable livelihoods

Capacities as bottleneck
Financial instruments remain traditional

- Matching grants and line of credit most common

Source: PMD FAME database
Review of project evaluation sample

- Sample: 25 project with IFS funding
- 13 projects responded to overall opportunities and challenges within national policy frameworks, not necessarily financial sector policies
- National financial inclusion strategies only partly reflected
- Changing framework condition challenging: e.g. economic recession, inflation or financial crises
- Lack of a realistic assessment of beneficiaries’ capacity and demand for financial services at design
- Demand for innovative products and services generally insufficiently assessed
Achievement of results

Better results achieved by full rural finance projects

Source: ESR sample analysis
Effectiveness of financial instruments

Proportion of projects with types of financial instruments

- Apex (n=9)
- Loan Guarantee (n=4)
- Credit Line (n=15)
- Matching Grant (n=2)
- Value Chain Financing (n=4)

For each financial instrument:
- Projects with strong IFS results (n=5)
- Remaining projects (n=10)
- Projects with negative or no IFS results (n=8)

Source: ESR sample analysis
Effectiveness of financial service providers

Proportion of projects with types of FSPs

- **Credit Unions** (n=7)
- **CBFOs** (n=12)
- **Commercial Banks** (n=8)
- **State Banks** (n=7)
- **MFI/NGOs** (n=8)

- Projects with strong IFS results (n=5)
- Remaining projects (n=10)
- Projects with negative or no IFS results (n=8)

*Source: ESR sample analysis*
Gender results

Projects with strong gender results (n=7)  Projects with no or negative gender results (n=12)

Source: ESR sample analysis
Main influencing factors

• Negative: limited analysis of the institutional and political context (9 projects)
• Favourable policy environment: Armenia, China, Uruguay and India (4 projects)
• Appropriate IFS strategy: funding modality and choice of partner. (11 projects)
• Inappropriate IFS strategy: insufficient funding, choice of financial products (7 projects)
• Common capacity issues:
  - Weak government capacity to manage IFS projects;
  - Lack of meso-level institutions;
  - Limited institutional and staff capacity of FSPs
## The way forward for IFAD

<table>
<thead>
<tr>
<th>What IFAD should do more</th>
<th>What IFAD should do less</th>
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<tbody>
<tr>
<td>• Promote savings and insurance</td>
<td>• Technical assistance for direct beneficiaries</td>
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<td>• Value chain financing</td>
<td>• Including financial and non-financial support in the same component</td>
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<td>• Performance-based agreements with FSPs and meso-level organisations</td>
<td>• Support state-owned banks</td>
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<td>• Leverage financial aggregators</td>
<td>• Support CBFOs without linking them to the financial sector</td>
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<td>• Support MFIs and Cooperatives</td>
<td>• Matching grants</td>
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<td>• Linking loans and non-agricultural activities</td>
<td>• Blended finance</td>
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<td>• Mobile banking</td>
<td>• Credit funds for specific groups</td>
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<td>• Strengthen institutional governance</td>
<td>• Establishing standalone MFIs or FSPs</td>
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<td>• Partnerships with global and regional networks</td>
<td>• Getting government to run funds</td>
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Source: ESR online survey
Lessons (1)

- Holistic approach can work in standalone IFS projects
- Simple approaches work better for IFAD
- Institutional sustainability requires diverse products and services, charging cost-covering rates
- Well-established apex organisations can provide effective services and funding to FSPs
- Credit lines effective in markets where liquidity is a key constraint
- Loan guarantee funds require high level of technical knowhow, funding and long-term perspective
Lessons (2)

• Value-chain finance requires differentiated approaches to serve all segments
• MFIs/NGOs/CBFOs more poverty oriented
• Graduation targets the very poor
• Innovative aggregators (postal networks, mobile operators) support outreach to remote rural areas
• Sustainability of FSPs in rural areas requires longer-term support and permanent apex structures
• Engagement in financial sector policy dialogue requires broader partnerships
What we did to communicate the findings

Evaluation Synthesis Report and Overview

Infographic of Lessons from the Evaluation Synthesis

Webinar

Social Media
Agreed follow up

• Conduct a thorough assessment of the inclusive rural finance portfolio
• Update Rural Finance Policy
• Prepare action plan to address issues of knowledge management, learning and capacity building
• Strengthen partnerships with greater focus on longer-term results at institutional, sector support infrastructure and policy levels
• Undertake more sector diagnostics, particularly for demand segmentation analyses as early upstream as possible as part of the project design