Comments of the Independent Office of Evaluation of IFAD on the Inclusive Rural Finance Policy

Note to Executive Board representatives

Focal points:

<table>
<thead>
<tr>
<th>Technical questions:</th>
<th>Dispatch of documentation:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indran A. Naidoo</strong> Director</td>
<td><strong>Deirdre Mc Grenra</strong> Chief</td>
</tr>
<tr>
<td>Independent Office of Evaluation of IFAD</td>
<td>Institutional Governance and Member Relations</td>
</tr>
<tr>
<td>Tel.: +39 06 5459 2274</td>
<td>Tel.: +39 06 5459 2374</td>
</tr>
<tr>
<td>e-mail: <a href="mailto:i.naidoo@ifad.org">i.naidoo@ifad.org</a></td>
<td>e-mail: <a href="mailto:gb@ifad.org">gb@ifad.org</a></td>
</tr>
</tbody>
</table>

| **Johanna Pennarz** Lead Evaluation Officer | |
| Tel.: +39 06 5459 2558 | |
| e-mail: j.pennarz@ifad.org | |

Executive Board — 133rd Session
Rome, 13-16 September 2021

For: Approval
Contents

I. Introduction 1
II. Overarching comments on the updated RFP (2021) 2
III. Specific comments and suggestions 2
IV. Concluding remarks 3
I. Introduction

1. In 2009, the Executive Board of IFAD adopted the Rural Finance Policy (RFP), which introduced an important strategic change, namely the move from considering credit as part of input supply, towards a comprehensive approach focused on the three levels of the financial system (micro, meso and macro) in order to achieve sustainable delivery of financial services for the rural poor. The principles of the 2009 RFP were internationally recognized as good practice and are generally valid for financial sector interventions.

2. The Independent Office of Evaluation of IFAD (IOE) conducted a comprehensive review of IFAD’s support of inclusive rural finance in 2019. The evaluation synthesis report (ESR) on Inclusive financial services for the rural poor (2019) found that the principles of the 2009 RFP were ambitious and challenging to implement in the context of IFAD operations. Projects often struggled in balancing sustainability of financial services (and institutions) with poverty outreach. While the 2009 policy emphasized the need to move towards market-led and demand-oriented approaches, the majority of projects still applied traditional supply-led approaches. The lack of demand orientation in the design of the financial services and the limited capacities of implementing partners to offer a broader range of (innovative) financial products and services were also limiting the relevance of IFAD as the provider of inclusive financial services.

3. The 2019 ESR included a recommendation that IFAD should update its RFP with the aim of supporting consistent implementation of policy principles throughout the organization. The revised policy would reflect lessons from IFAD’s operations, derived from a comprehensive stocktake, as well as the new developments in the sector – for example, digitalization. The revised policy should not be overly detailed, but clearly present the principles of what works. The ESR included five recommendations, including three strategic recommendations, which were closely linked:

   (i) **Recommendation 1**: Conduct a stocktaking of current inclusive financial service (IFS) practices on the ground.

   (ii) **Recommendation 2**: Update the IFAD RFP and prepare a corporate IFS strategy, with the aim of supporting consistent implementation of the policy throughout the organization.

   (iii) **Recommendation 3**: Enhance strategic impacts at institutional, sector and policy levels, through a greater focus on meso-level institutions and stronger partnerships with agencies working in the sector.

   (iv) **Recommendation 4**: Conduct sound analysis at the design stage and be flexible in adapting it during implementation, to ensure that projects are demand-led, appropriate for the context and able to absorb emerging lessons and experiences.

   (v) **Recommendation 5**: Continue experimenting with innovative approaches and services locally, while extracting lessons and disseminating learning across the whole of IFAD.

4. Following ESR recommendation 1, IFAD carried out a stocktaking exercise in 2021, which found that, on balance, IFS effectiveness was moderately successful. IFS interventions generally followed good international IFS practice and were aligned with relevant national strategies, although financing opportunities were insufficiently used to incentivize market development. IFS interventions were not integrated well within non-IFS projects and rarely applied focused approaches to meet the specific needs of different target groups.
II. Overarching comments on the updated RFP (2021)

5. The policy, true to the nature of a policy document, is short and lays out the directions for rural finance in IFAD. The document is concise and clear. The scope of the document is broad enough to provide IFAD with flexibility to adapt its operations. It also clearly lays out the comparative advantage of IFAD in rural finance sector.

6. The policy presents a number of lessons that are relevant and forward-looking. The lessons refer, among others, to IFAD’s comparative advantage in the expansion of member-owned and -managed community-based financial organizations (i.e. the importance of supporting climate change resilience through products such as insurance and savings, and the need to better link financial services with non-financial interventions).

7. The policy is well aligned with IFAD’s strategy and mandate to contribute to inclusive and sustainable food systems. The policy envisions rural poor people benefiting from accessible, affordable and useful financial products and services that will increase their productive capacities, their benefits from market participation and their resilience to climate change and other shocks.

8. The policy principles are pragmatic and suited to IFAD’s operational approach. The policy includes three guiding principles: people-centric inclusive rural finance; impact-driven, catalytic market-building instruments; and enabling environment interventions to promote change at scale. The principles are relevant and aligned with IFAD’s operational approaches, focusing on the role of financial services in facilitating inclusive rural development. As such, they are less ambitious than the (six) principles in the previous policy, which aimed at a “holistic and multi-level approach” to financial systems development.

III. Specific comments and suggestions

9. Complementing policy commitment, IFAD would need to follow a comprehensive set of actions, highlighting and integrating policy developments as they emerge. New developments are largely mentioned in passing and are not explicitly linked to changes within IFAD and the required IFAD capacity to respond to such developments. There are mentions of fintech and private sector investments (and impact investors), but there is no elaboration on existing policies (framework for non-sovereign, private sector operations and strategy of Information and Communications Technology for Development) or on the internal capacities that are being built to apply them. Currently, the updated policy merely mentions alignment with various other policies in IFAD (footnote 3), without elaborating further. The upcoming action plan might provide more detail on those linkages.

10. The document should be clear on how this policy is different from the last one. While the policy mentions that it will increase the focus on certain aspects (in para. 12), it is important to expand on the marginal and incremental areas of change. While the rationale for updating the policy is laid out clearly, no specific changes are mentioned apart from those in paragraph 12. A description of specific changes would help link the updated policy more strongly to the recommendations of the ESR on rural finance and establish the additionality of the updated policy.

11. The policy must reflect IFAD’s overall commitment to equality, and detail what this means in particular for women. For example, women form the prime target groups for most of IFAD’s rural finance operations. While the issues of access and affordability for different sections of the population have been covered in the policy (para. 4), these should be emphasized more strongly. Equality remains at the center of Agenda 2030 for Sustainable Development Goals and the policy could link its focus more systematically to the same.
IV. Concluding remarks

12. IOE welcomes the updated RFP, which appropriately captures lessons from experience and lays out the broad principles for implementation. Consistent implementation of policy principles has the potential to enhance IFAD’s comparative advantage and effectiveness. Therefore IOE recommends that IFAD should track policy implementation within its corporate self-evaluation system.

13. IOE appreciates Management’s commitment to preparing an action plan to support the policy’s implementation by highlighting the additional actions and resources needed, including knowledge generation and sharing, as well as partnership- and capacity-building (para. 30). The preparation of an action plan was agreed as a follow-up to the ESR recommendations.